鷹普精密工業有限公司

Impro Precision Industries Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1286

ANNUAL REPORT 2023

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This annual report is printed on environmentally friendly paper.

ABOUT US

Impro Mission

To be the global leader in high precision, high complexity, mission-critical components and solutions, and to be a reliable, flexible and global business partner to industry leaders.

Impro Vision

To be an enterprise truly valued by our customers, stockholders, employees, and the society at large.

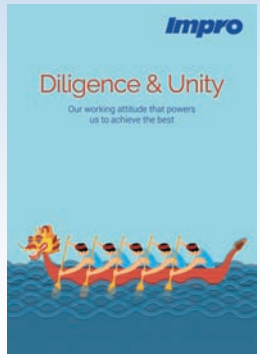
IMPRO CORE VALUES

Integrity and Credibility

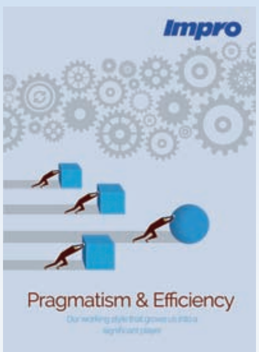
It means following through on the promises we make, and conducting business ethically and responsibly. At Impro, this is a critical element of everything we do. It guides our every action and reinforces our commitment to honesty, transparency, business ethics and regulatory compliance, both within our company and in the outside world.

Diligence and Unity

It means not only committing to one's work but also ensuring that the work one does is done thoroughly. It also means that collaboration is our route to success. We believe that creating team– based work will enable individuals to contribute in their areas of strength and improve in areas where development is needed. At Impro, Diligence underlies all of our work processes; through Unity, we can achieve more than through working alone.



Pragmatism and Efficiency



It means being practical in all situations, driving towards results and minimizing non-value added activities. At Impro, Pragmatism is the roadmap to execution, and Efficiency drives all of our actions. It frames the way we view our path forward and enables us to achieve results by seeing each challenge as it really is. It means that we minimize waste of all sorts, including duplicate processing or downtime.

Pursuit of Excellence and Innovation

It means always paying careful attention to detail, looking for ways to improve on activities done in the past and challenging conventions and thinking outside of the box in all areas of the business. At Impro, the Pursuit of Excellence sets us apart. We're committed to putting all our efforts into every task we undertake, and making sure that we strive for perfection. Innovation allows us to reframe problems and see solutions that others may not see. It is the way we continuously improve.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. LU Ruibo
(Chairman and Chief Executive Officer)
Ms. WANG Hui, Ina
Mr. YU Yuepeng
Ms. ZHU Liwei
Mr. WANG Dong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YU Kwok Kuen Harry
Dr. YEN Gordon
Mr. LEE Siu Ming

AUDIT COMMITTEE

Mr. YU Kwok Kuen Harry *(Chairman)*
Dr. YEN Gordon
Mr. LEE Siu Ming

REMUNERATION COMMITTEE

Mr. LEE Siu Ming *(Chairman)*
Mr. YU Kwok Kuen Harry
Mr. LU Ruibo

NOMINATION COMMITTEE

Mr. LU Ruibo *(Chairman)*
Dr. YEN Gordon
Mr. LEE Siu Ming

SUSTAINABILITY COMMITTEE

Dr. YEN Gordon *(Chairman)*
Mr. LEE Siu Ming
Mr. YU Yuepeng
Ms. ZHU Liwei
Mr. WANG Dong

AUTHORIZED REPRESENTATIVES

Mr. LU Ruibo
Mr. IP Wui Wing Dennis

COMPANY SECRETARY

Mr. IP Wui Wing Dennis, *CPA*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 803, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 18, Furong Road 5
Xishan Economy Development Zone
Wuxi City, Jiangsu Province
PRC

LEGAL ADVISER AS TO HONG KONG LAW

Morgan, Lewis & Bockius
19th Floor
Edinburgh Tower
The Landmark
15 Queen’s Road Central
Hong Kong

CORPORATE INFORMATION

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance
8/F Prince's Building
10 Chater Road
Central, Hong Kong

PRINCIPAL BANKERS

Bank of China Limited
Bank of China (Hong Kong) Limited
Bank of Communications Limited
Bank of Jiangsu Co., Ltd.
BNP Paribas Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
Citibank, N.A., Hong Kong Branch
DBS Bank (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
The Hong Kong and Shanghai Banking Corporation Limited
United Overseas Bank Limited Hong Kong Branch

WEBSITE

www.improprecision.com

IR RELATIONS

ir@impro.com.hk

STOCK CODE

1286

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Tel: +852 2862 8555
Fax: +852 2865 0990
Website: www.computershare.com/hk/contact

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

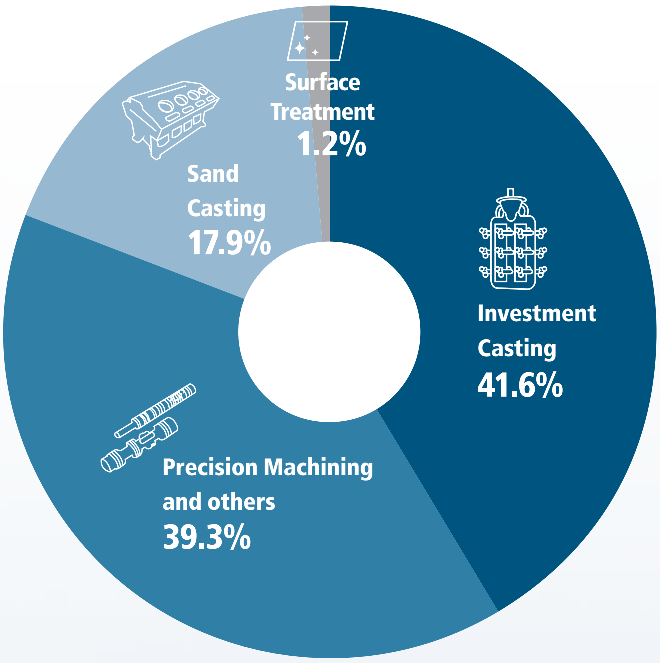
Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

CORPORATE PROFILE

Impro Precision Industries Limited was founded in 1998 in Wuxi City and its global headquarters was moved to Hong Kong in 2011. The Group is a global top 10 manufacturer of high-precision, high-complexity and mission-critical castings, machined components and hydraulic orbital motors for diverse end-markets. According to the market statistics, the Group was the world's 5th largest independent and China's largest investment casting manufacturer and also the world's 3rd largest precision machining company in the end-markets of automotive, aerospace and hydraulics, each in terms of total revenue in 2022. The Group is also one of the few suppliers offering one-stop solutions, including initial research and development, tooling design and manufacture, casting, heat treatment, secondary machining and surface treatment. The Group has established long-term strategic cooperative relationships with globally recognized industry leaders, selling its products to more than 30 countries and regions.

- **World's 5th Largest Independent and China's largest Investment Casting manufacturer**
- **World's 3rd Largest Precision Machining company** in the end-markets of automotive, aerospace and hydraulics
- **Vertical integrated one-stop solutions provider** including initial research and development, tooling design and manufacture, casting, heat treatment, secondary machining and surface treatment

REVENUE BY BUSINESS SEGMENT



2023 Group Revenue : **HK$4,604.4 Million**

Revenue Growth Rate : **5.7%**

CORPORATE PROFILE

Employees Worldwide

7,600+ employees, including **~600** engineers around the world

Customers

1,000+ customers located in **30+** countries and regions worldwide

SKUs

- **1,100+** new component SKUs co-developed with customers in 2023
- **9,300+** active component SKUs

Patents

- **93** new patent applications in 2023
- **Total 553** registered patents, covering certain key technologies used in our production process

★ Headquarters ● 21 Production Plants ■ 9 Sales Offices ▲ Logistics and Warehousing Capacities

Impro Precision has established global footprint of 21 production facilities in China, Turkey, Germany, the Czech Republic and Mexico (19 of which are in operation and 2 are under equipment installation), which are supported by 9 sales offices in China, United States, Luxembourg, Germany, Turkey, Hong Kong and Mexico, as well as warehousing capacities in China, United States, Luxembourg, Mexico, Germany and Turkey.

BUSINESS PROFILE

INVESTMENT CASTING

Investment casting is the Group's largest business segment which accounted for 41.6% of the Group's revenue for the year ended 31 December 2023. Investment casting is a metal forming process that normally involves using a wax pattern surrounded in a ceramic shell to form a ceramic mold. Once the ceramic shell is dry, the wax is melted out and the ceramic mold is formed. Molten metal is then poured into the ceramic mold to form a casting component. The ceramic mold is subsequently removed, and the casting components are created. Some investment castings require a secondary machining process after casting. Investment casting is usually used to produce parts and components in complex shape with high precision and surface requirement.

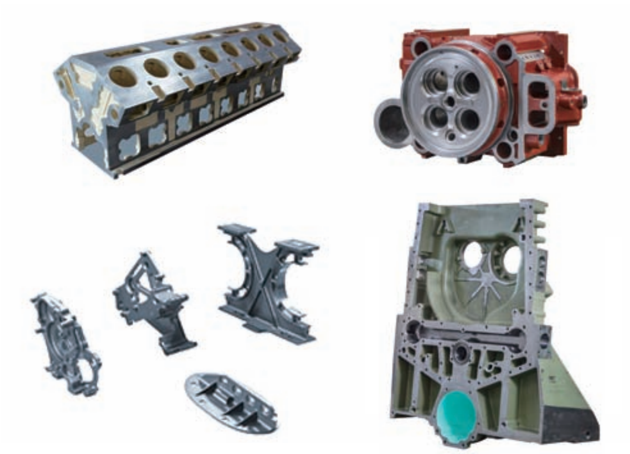
The Group particularly focuses on high-precision, high-complexity and mission-critical investment casting components. The Group currently manufactures investment casting components from plants in four countries, including China, Mexico, Germany and Czech Republic. In 2023, investment casting components are sold to diverse end-markets, including diversified industrials, automotive, aerospace, medical and energy, with over half of the Group's investment casting products sold to Americas, and to a less extent in Europe and Asia including China.

PRECISION MACHINING AND OTHERS

Precision machining and others is the second largest business segment of the Group which accounted for 39.3% of the Group's revenue for the year ended 31 December 2023. It is a process that involves using computer numerical controls and other machines and tools to drill or shape metal components with highly precise specifications used in various finished products. Precision machining and others is performed on bar stocks and other formed materials sourced from global third-party suppliers. The others refer to the research and development as well as manufacture of hydraulic orbital motors.

The Group currently manufactures precision machining components from plants in three countries, including China, Turkey and Mexico. The Group manufactures precision machining products for sale mainly to the automotive end-markets, and to a less extent construction equipment and aerospace end-markets, with the focus on the high-end precision machining & other products. In 2023, around half of the precision machining & others products are sold to Europe, and about one-third to Americas and remaining to Asia including China.

SAND CASTING



Sand casting is the third largest business segment of the Group which accounted for 17.9% of the Group's revenue for the year ended 31 December 2023. Sand casting is a metal forming process in which a mold is first formed from a three-dimensional pattern of sand, and molten metal is poured into the mold cavity for solidification. The sand shell is subsequently removed after the metal components are cooled and formed. Certain sand casting components require a secondary machining process after casting. Sand casting is mainly used in the manufacturing of structural metal components.

The Group currently manufactures sand casting components from plants in China and Mexico. The Group manufactures sand casting components mainly for sale to the high horsepower engine and construction equipment end-markets. In 2023, about half of the Group's sand casting components are sold to Americas, and approximately one-third to Asia including China and the remaining to Europe.

SURFACE TREATMENT

Surface treatment is the fourth largest business segment of the Group which accounts for 1.2% of the Group's revenue for the year ended 31 December 2023. The Group provides surface treatment services mainly through electroplating which is a process used to change the surface properties of a metal part by adding a metal coating onto its surface through the action of electric current. The Group's electroplating services can be broadly divided into functional electroplating process which improves the conductivity, wear resistance and corrosion resistance of the components and hence is critical to the functions of the components, and decorative electroplating, where the electroplating process is performed mainly for decorative purposes.

The Group currently provides surface treatment service from two plants in China. In 2023, our surface treatment customers were from China, with each of the three major end markets: Diversified Industrials, Automotive and Aerospace, Energy & Medical accounting for approximately one-third of sales.

BUSINESS PROFILE

OUR END-MARKETS

Our products and services are widely applied to various end-markets, including construction equipment, high horsepower engines, agricultural equipment, recreational boats and vehicles, commercial vehicles, passenger cars, aerospace, medical and energy.

The following table sets forth our main products by end-market:

End-market	Main business segments	Main products/services
Construction equipment	Investment casting, precision machining & others and sand casting	Components for fuel systems, electric fuel injection systems, exhaust systems, and transmission systems, as well as hydraulic orbital motors
High horsepower engine	Investment casting and sand casting	Components for fuel systems, engine blocks, cylinder heads, emission systems for distributed energy engines
Agricultural equipment	Investment casting, precision machining & others and sand casting	Components for transmission systems, engine systems, and emission systems for combine-harvesters, seeders and tractors, as well as hydraulic orbital motors
Recreational boat and vehicle	Investment casting, precision machining and sand casting	Components for marine engines and steering systems, components for motorcycle brakes and transmission systems
Others	Investment casting, precision machining and sand casting	Pumps, bearings, fire safety equipment and food processing machinery
Commercial vehicle	Investment casting, precision machining and sand casting	Components for fuel systems, exhaust gas recirculation ("**EGR**") systems, turbo chargers, transmission systems, and emission systems, as well as and hydraulic orbital motors

End-market	Main business segments	Main products/services
Passenger car	Investment casting, precision machining and surface treatment	Components for fuel systems, EGR systems, turbo chargers, transmission systems and body systems, motor shaft for electric vehicles; electroplating services for brake systems, fasteners, steering systems, emission systems, and decorative components both for traditional combustion engine vehicles and electric vehicles
Aerospace	Investment casting, precision machining and surface treatment	Components for air and fuel systems, aircraft engine systems, hydraulic systems, flight control systems, environment control systems, landing control systems, and auxiliary power units; hard chrome plating for air and fuel systems and engine parts, anodizing and chemical film of components for fuel systems, engine systems, hydraulic systems and flight control systems
Medical	Investment casting, precision machining and sand casting	Components for surgical instruments, surgical robot, medical diagnosis equipment, biosystem equipment, prosthetics and patient handling equipment
Energy	Investment casting, precision machining and surface treatment	Gas turbine combustor end cover, fuel nozzle, oil drilling platform drilling plate drilling, mining drilling tools, well completion parts, sand control and sand control systems, etc.; surface treatment of nuclear reactor internals and components of control rod drive mechanisms

KEY MILESTONES

MAR

JUN

JUN 2023

Impro Aerotek won "Honeywell Collaboration Award 2023"

Impro won again "Newcast Award"

SEP

SEP 2023

Impro's 25th Anniversary Open Day in China Region was successfully held

NOV

DEC

JAN

JAN 2024

Impro was again awarded the "Bronze Medal" by EcoVadis

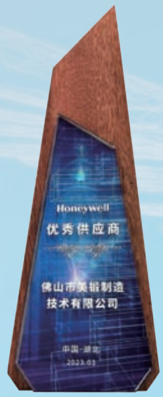
The opening ceremony of Impro Aerotek (Nantong) Limited was successfully held

Impro Fluidtek completed its move into its own new office and new factory in Zhenjiang City, the PRC

KEY MILESTONES

MAR 2023

Impro was awarded the "Excellent Supplier" by Honeywell Aerospace



NOV 2023

Impro won the "Excellent ESG Enterprise" from Hong Kong Economic Times for three consecutive years

Impro won "Cross-Border Corporate – Outstanding Award" at Standard Chartered Corporate Achievement Awards 2023

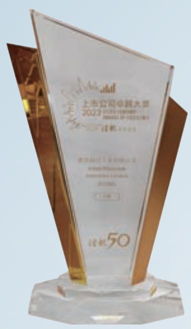
Impro earned "Bosch Rexroth 2023 CN Advanced Technology Supplier Award"

Impro won "Caterpillar 2023 Excellent Supplier Award"

Impro was awarded "Hong Kong Green and Sustainable Finance Awards 2023" by HKQAA

DEC 2023

Impro won "Hong Kong Economic Journal Listed Company Awards of Excellence" for three years in a row



Impro won "Best High-end Manufacturer of the Year" at Guruclub Outstanding Companies List 2023

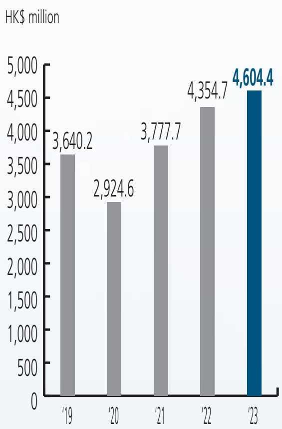
FINANCIAL HIGHLIGHTS

HK$ million	Year ended 31 December 2023	2022	Change
Revenue	**4,604.4**	4,354.7	5.7%
Gross profit	**1,178.3**	1,261.0	-6.6%
Gross profit margin	**25.6%**	29.0%	-3.4%
Profit attributable to shareholders of the Company	**585.1**	582.0	0.5%
Adjusted profit attributable to shareholders of the Company[1]	**532.0**	649.1	-18.0%
Earnings per share — Basic (HK cents)	**31.0**	30.9	0.3%
Adjusted basic earnings per share (HK cents)	**28.2**	34.5	-18.3%
Dividend per share (HK cents)	**16.0**	16.0	0%
EBITDA[2]	**1,224.9**	1,165.5	5.1%
EBITDA margin	**26.6%**	26.8%	-0.2%
Adjusted EBITDA[3]	**1,214.9**	1,227.6	-1.0%
Adjusted EBITDA margin	**26.4%**	28.2%	-1.8%
Net cash generated from operating activities	**1,281.4**	837.5	53.0%
Free cash inflow from operations[4]	**508.5**	169.0	200.9%

Revenue

5.7%↑

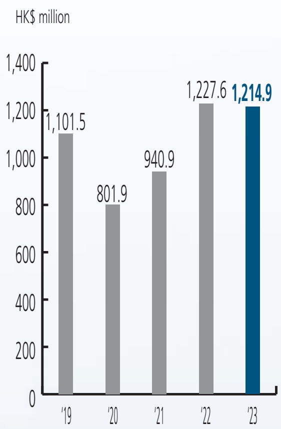
HK$4,604.4 million



Adjusted EBITDA

1.0%↓

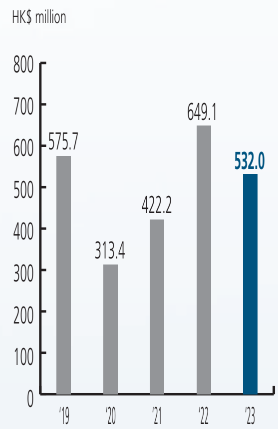
HK$1,214.9 million



Adjusted Profit Attributable to Shareholders

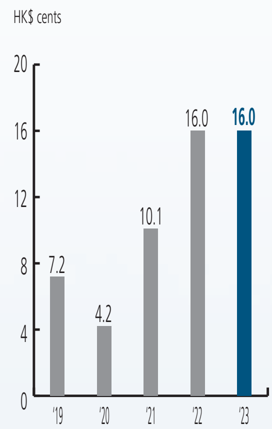
18.0%↓

HK$532.0 million



Dividend per Share

HK$16.0 cents



For the year ended 31 December

FINANCIAL HIGHLIGHTS

HK$ million	**As at 31 December 2023**	As at 31 December 2022	Change
Cash and cash equivalents	**630.9**	483.3	30.5%
Total debt	**2,257.8**	2,205.9	2.4%
Net debt (total debt less cash and cash equivalents)	**1,626.9**	1,722.6	-5.6%
Total equity	**4,900.9**	4,398.0	11.4%
Market capitalization[5]	**4,529.5**	4,183.7	8.3%
Enterprise value[6]	**6,176.8**	5,925.1	4.2%
Key Financial Ratios			
Adjusted return on equity[7]	**11.5%**	14.9%	
Price earnings ratio	**7.7**	7.2	
Enterprise value to adjusted EBITDA ratio	**5.1**	4.8	
Net debt to adjusted EBITDA ratio	**1.3**	1.4	
Net gearing ratio	**33.2%**	39.2%	
Interest coverage[8]	**6.2**	13.4	

FINANCIAL HIGHLIGHTS

Notes:

1 Reconciliation of profit for the year to adjusted profit attributable to shareholders of the Company (non-IFRS measure):

	Year ended 31 December	
	2023 **HK$' million**	2022 HK$' million
Profit for the year	**586.8**	582.8
Adjustments:		
— Recognition of deferred tax assets of a Turkish subsidiary in accordance with inflation accounting as prescribed by the Turkish Tax Procedure Code, net of 10% dividend withholding tax	**(80.8)**	–
— Impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident, net of tax and insurance claims received	**(14.6)**	62.2
— Amortization and depreciation related to purchase price allocation, net of tax	**36.2**	18.0
— Provision for staff severance cost in relation to the relocation of the Foshan Ameriforge Plant to Nantong and its merger with Nantong Plant 12, net of tax	**6.1**	–
— Gain on disposal of a Germany plant's land, property and machinery, net of tax	**–**	(13.1)
Adjusted profit for the year	**533.7**	649.9
Less: Profit attributable to non-controlling interest	**(1.7)**	(0.8)
Adjusted profit attributable to shareholders of the Company	**532.0**	649.1

2 EBITDA refers to earnings before interest, tax, depreciation and amortization.

3 Adjusted EBITDA represents EBITDA added back below significant one-off items for the years ended 31 December 2023 and 2022.

Reconciliation of EBITDA to adjusted EBITDA (non-IFRS measures):

	Year ended 31 December	
	2023 **HK$' million**	2022 HK$' million
EBITDA	**1,224.9**	1,165.5
Adjustments:		
— Impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident, net of insurance claims received	**(17.2)**	80.4
— Provision for staff severance in relation to the relocation of the Foshan Ameriforge Plant to Nantong and its merger with Nantong Plant 12	**7.2**	–
— Net gain on disposal of a Germany plant's land, property and machinery	**–**	(18.3)
Adjusted EBITDA	**1,214.9**	1,227.6

4 Net cash generated from operating activities less net cash used in investing activities but add back net cash used in acquisitions.

5 Outstanding number of shares multiplied by the closing share price (HK$2.40 per share as of 31 December 2023; HK$2.22 per share as of 31 December 2022).

6 Enterprise value is calculated as market capitalization plus non-controlling interest plus net debt.

7 Adjusted return on equity is calculated as adjusted profit attributable to shareholders of the Company divided by the average of total equity attributable to equity shareholders of the Company as of 31 December 2023 and 2022.

8 Interest coverage is profit from operations (adjusted for significant one-off items) divided by interest expenses on total interest-bearing bank loans and lease liabilities.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I hereby report to the shareholders the annual results of Impro Precision Industries Limited (the "**Company**", together with its subsidiaries, the "**Group**" or "**Impro**") for the year ended 31 December 2023.

During the year ended 31 December 2023, the revenue of the Group amounted to HK$4,604.4 million, representing a year-on-year increase of 5.7%. Profit attributable to shareholders of the Company (the "**Shareholders**") amounted to HK$585.1 million, representing a year-on-year increase of 0.5%. If excluding the recognition of deferred tax assets by a Turkish subsidiary of HK$80.8 million in accordance with inflation accounting as prescribed by the Turkish Tax Procedure Code (net of 10% dividend withholding tax), Nantong fire incident insurance claims received (net of tax) of HK$14.6 million, the amortization and depreciation charges in relation to the past purchase price allocation of HK$36.2 million and the accrued employee severance expenses (net of tax) related to the relocation of the Foshan Ameriforge Plant (佛山美鍛工廠) to Nantong and its merger with Nantong Plant 12 of HK$6.1 million, the adjusted profit attributable to the Shareholders of the Company amounted to HK$532.0 million, representing a year-on-year decrease of 18.0%. The basic earnings per share amounted to 31.0 HK cents (year ended 31 December 2022: 30.9 HK cents). Taking into account the sound cash flow position and business prospects of the Group, in lieu of a final dividend, the Board resolved to distribute a second interim dividend of 2023 of 8.0 HK cents per share. Along with the distributed first interim dividend of 2023 of 8.0 HK cents per share, dividend for the year amounted to 16.0 HK cents per share (year ended 31 December 2022: 16.0 HK cents).

In 2023, the Group experienced robust growth of sales of 47.7% in the aerospace, energy and medical end-markets, which was mainly driven by the post-pandemic recovery of the aerospace industry, strong growth in energy end-market and the additional revenue resulting from the acquisition of Foshan Ameriforge in August 2022. However, the global diversified industrials end-markets demand showed a downward trend since the second quarter of 2023, which were more rampant in the third quarter before starting to become more stable in the fourth quarter. Apart from this, the sales and profit growth of the Group were also under pressure against the backdrop of the very challenging macro environment. In addition, the Group's new Mexican plants remained in the ramp-up stage during the year. Coupled with substantial increase of depreciation charges, higher inflation rate and 12% appreciation of Mexican Peso against US dollars, the new Mexican plants recorded loss after tax of over HK$100 million for the year due to a surge in operating costs. Since the Nantong plant was still under reconstruction after the fire incident, while most of the production lines remained suspended, it recorded loss after tax exceeding HK$30 million for the year. In addition, the Group's interest cost for the year increased significantly by over HK$50 million year-on-year and Turkish plants' operating costs rocketed as a result of elevated inflation. Although most of the plants in the PRC achieved satisfactory operating performance, it was not sufficient to fully offset the above unfavorable factors, thus resulting in a decrease of 18.0% in the Group's adjusted profit attributable to the Shareholders in 2023.

Revenue by end-market

The Group sells its products to worldwide customers in diversified end-markets. During the year, the aerospace, energy and medical end-markets experienced strong growth, with revenue significantly increased to HK$696.1 million, representing a year-on-year increase of 47.7%. The increase was mainly attributable to the recovery of global aerospace market, increased market share and the development and mass production of new products, coupled with higher revenue growth in this segment driven by strong sales growth of Foshan Ameriforge acquired by the Group in August 2022. Sales in the energy end-market surged by 134.8%, mainly driven by the Foshan Ameriforge business acquired by the Group; and sales in the medical end-market decreased as a result of the inventory adjustments by certain major customers. In addition, the Group reviewed the final product application scenarios of certain aerospace and medical customers and reclassified sales to others diversified industrials end-markets in 2023, corresponding data of 2022 have also been reclassified.

Furthermore, demand from the customers for the global diversified industrials end-markets exhibited a declining trend since the second quarter of 2023, resulting in a 7.4% year-on-year decrease in sales during the second half of 2023, and revenue from this end-market only increased by 1.4% year-on-year to HK$2,213.6 million in 2023. Among which, revenue from the agricultural equipment end-market increased by 19.2% year-on-year to HK$421.0 million during the year. The revenue growth was mainly driven by the sustained increase in demand for agricultural equipment in the United States and the hydraulic orbital motor business acquired by the Group in the second half of 2022. Affected by high interest rates, macro-economic slowdown and customers' inventory adjustments, the sales revenue of the recreational boats and vehicles end-market and other diversified industrials end-markets decreased by 12.3% and 18.6% year-on-year to HK$217.7 million and HK$384.3 million respectively.

The overall demand from the European and American automotive markets increased steadily in 2023. However, the slowdown of the PRC's economy and the fire incident in early June 2022 at the Nantong plant, which mainly serves the automotive market in China, is still under reconstruction and dampened the revenue growth of the passenger car end-market during the year. Sales revenue increased by 3.9% to HK$834.9 million as compared to 2022. The commercial vehicle end-market suffered from decreasing demand from the US and European markets during the second half of 2023, with the sales revenue of commercial vehicles decreased by 4.0% to HK$859.8 million during the year.

CHAIRMAN'S STATEMENT

In local currencies, the revenue of the Group increased by 5.8% as compared to the year ended 31 December 2022. In 2023, the negative impact brought by the 4.4% depreciation of RMB against HK$ was basically offset by the 3.3% appreciation of Euro against HK$ during the same period.

	Year ended 31 December					
	2023		2022		Increase/Decrease	
By End-market	**HK$ million**	**Proportion**	HK$ million	Proportion	HK$ million	Change
Diversified Industrials	**2,213.6**	**48.1%**	**2,183.8**	**50.1%**	**29.8**	**1.4%**
— Construction Equipment	695.0	15.1%	646.9	14.9%	48.1	7.4%
— High Horsepower Engine	495.6	10.8%	463.1	10.6%	32.5	7.0%
— Agricultural Equipment	421.0	9.1%	353.3	8.1%	67.7	19.2%
— Recreational Boat and Vehicle	217.7	4.7%	248.2	5.7%	(30.5)	-12.3%
— Others	384.3	8.4%	472.3	10.8%	(88.0)	-18.6%
Automotive	**1,694.7**	**36.8%**	**1,699.5**	**39.1%**	**(4.8)**	**-0.3%**
— Commercial Vehicle	859.8	18.7%	896.0	20.6%	(36.2)	-4.0%
— Passenger Car	834.9	18.1%	803.5	18.5%	31.4	3.9%
Aerospace, Energy & Medical	**696.1**	**15.1%**	**471.4**	**10.8%**	**224.7**	**47.7%**
— Aerospace	424.9	9.2%	281.1	6.4%	143.8	51.2%
— Energy	170.2	3.7%	72.5	1.7%	97.7	134.8%
— Medical	101.0	2.2%	117.8	2.7%	(16.8)	-14.3%
Total	**4,604.4**	**100.0%**	**4,354.7**	**100.0%**	**249.7**	**5.7%**

Revenue by business segment

In terms of business segments, benefiting from the sales growth contributed by the hydraulic orbital motor business acquired by the Group in the second half of 2022 and driven by the increasing demand from customers of precision machining plants in Mexico and Turkey, the precision machining and others business achieved a substantial growth of 21.7%. The sales of sand casting and investment casting businesses were mainly affected by the decline in customer demand from diversified industrials end-markets in the second half of 2023 and their revenues only increased slightly by 1.0% and 0.8% respectively. Affected by the fire incident in Nantong plant in early June 2022, the Group's revenue from the surface treatment business decreased by 62.6% year-on-year in 2023.

	Year ended 31 December					
	2023		2022		Increase/Decrease	
By Business Segment	**HK$ million**	**Proportion**	HK$ million	Proportion	HK$ million	Change
Investment casting	1,914.8	41.6%	1,899.6	43.7%	15.2	0.8%
Precision machining and others	1,808.3	39.3%	1,486.0	34.1%	322.3	21.7%
Sand casting	823.9	17.9%	815.6	18.7%	8.3	1.0%
Surface treatment	57.4	1.2%	153.5	3.5%	(96.1)	-62.6%
Total	**4,604.4**	**100.0%**	**4,354.7**	**100.0%**	**249.7**	**5.7%**

Revenue by geographical market

In 2023, the Group's revenue growth in Europe was the strongest, with an increase of 10.6%, while the revenue in the Americas also recorded a growth of 5.2%. In Asia, the revenue flattened out year-on-year, among which the revenue from the PRC region declined by 2.2%, primarily due to the fire incident at the Nantong plant in early June 2022 and the economic slowdown in the PRC.

	Year ended 31 December					
	2023		2022		Increase/Decrease	
By Geographical Market	**HK$ million**	**Proportion**	HK$ million	Proportion	HK$ million	Change
Americas	**2,233.3**	**48.5%**	**2,123.0**	**48.8%**	**110.3**	**5.2%**
— United States	2,019.0	43.8%	1,957.7	45.0%	61.3	3.1%
— Others	214.3	4.7%	165.3	3.8%	49.0	29.6%
Europe	**1,502.7**	**32.6%**	**1,358.4**	**31.2%**	**144.3**	**10.6%**
Asia	**868.4**	**18.9%**	**873.3**	**20.0%**	**(4.9)**	**-0.6%**
— PRC	736.6	16.0%	753.3	17.3%	(16.7)	-2.2%
— Others	131.8	2.9%	120.0	2.7%	11.8	9.8%
Total	**4,604.4**	**100.0%**	**4,354.7**	**100.0%**	**249.7**	**5.7%**

CHAIRMAN'S STATEMENT

CORPORATE DEVELOPMENT AND STRATEGY

In 2023, as the world entered the post-pandemic era, Impro's forward-looking strategies of "Global Footprint", "Diversified End-markets" and "Twin Growth Engines" were effectively implemented, which enabled the Group to navigate the fluctuations and risks arising from different end-markets, resulting in resilient sales revenue growth during the year. Despite facing various market challenges, the Group maintained a very strong cash flow overall during the year. The trade receivables and inventory amounts of the Group decreased as compared to 2022, while working capital has been controlled effectively, resulting in an increase in operating cash flow of 53.0% to HK$1,281.4 million. After paying capital expenditures of HK$711.4 million and dividends to Shareholders of HK$301.7 million, the Group's net debt as of 31 December 2023 decreased by HK$95.7 million as compared to 31 December 2022.

As the global economy gradually recovers from the pandemic, a number of end-markets has been gradually going back on track, among which the performance of the aerospace and energy end-markets was remarkable and attracted most attention, highlighting the Group's vision and strategic value in strengthening its presence in the aerospace industry. The aerospace end-market is one of the key strategic development directions of Impro. As the international aerospace market has fully resumed its normal operation and the number of competitors in the aerospace supply chain has greatly reduced, coupled with the strong growth in the number of orders after the Group acquired Foshan Ameriforge, a manufacturer of aerospace and energy components, the aerospace and energy end-markets business contributed significantly to the overall growth of the Group during the year. Meanwhile, the Group also continues to develop the medical equipment end-market. There are a considerable number of components in this business that are currently in the development and certification stage as the development and certification cycles of medical equipment are relatively long. With its development potential, it is believed that this segment will become one of the Group's growth engines in the future.

In terms of diversified industrials end-market, the widespread application and rapid development of big data centers related to artificial intelligence have promoted a significant increase in demand for high horsepower engines for distributed power generators. Coupled with reduced competition, the customer base and market share of the Group in Europe and the US have greatly increased, which is expected to drive considerable sales revenue growth in the high horsepower engine end-market in 2024.

The automotive end-market is one of the three end-markets for the Group. Impro continues to maintain a strong competitive advantage in the passenger car market with high quality and value-for-money products, striving to seize higher market share and share of wallet successfully. In the commercial vehicle market, a considerable number of new projects are under development, which is expected to drive sales growth of the commercial vehicle end-market in the future. The Group will actively cope with automotive market electrification changes and rapid development, deploy flexibly its resources to continue promoting a stable sales growth in the automotive end-market.

CHAIRMAN'S STATEMENT

At present, Impro has a total of 21 plants located in the PRC, Germany, Turkey, Czech Republic and Mexico. The Group adheres to the strategies of "Region for Region Manufacturing" and "Dual Source Production" to help customers deal with the effects brought by the supply chain risks arising from the changing multilateral situation. Among which, the Mexico SLP campus, which serves the North American market, has a total of five plants, of which the precision machining plant, sand casting plant and investment casting plant have already commenced production and operations. The remaining aerospace component plant and surface treatment plant are also expected to complete equipment installation in 2024, and will commence aerospace system certification procedures and put into trial production. By then, the Group's production capacity and service capabilities will be further enhanced while the unique geographical and production advantages of the Mexico SLP campus will be further unleashed, enabling the Group to continue to expand its market share and solidify its global footprint.

Since the fire incident at the Nantong plant in the PRC in early June 2022, the Group has been maintaining close communication with all of its stakeholders, including customers, suppliers and government authorities, to properly handle the aftermath of the fire incident. Efforts have been made to repair the facilities, invest in new equipment, and follow up with insurance claims. As of 31 December 2023, the Group received insurance claim payments amounting to HK$30.5 million, and negotiations with the insurance company are ongoing for the remaining insurance claims. The Nantong plant resumed production in January 2024, and its business scope has been adjusted and divided into two major plants. Among them, the original Plant 8 will retain part of the surface treatment business, while the newly established Nantong Plant 12 will be integrated with Foshan Ameriforge to focus on aerospace and energy components business.

After acquiring the orbital motor business in October 2022, the Group utilized its own funds to build a plant specializing in the production of orbital motors and other fluid power parts and components in Zhenjiang, China, at the beginning of 2023. The first phase of the plant with a gross floor area of 26,720 square meters was completed at the beginning of 2024. In addition, the production lines and offices have already been moved from third-party leased plant to self-owned plant. As such, the operations and production capabilities will be significantly improved. In the future, the Group will vigorously expand this business in overseas markets such as America and Europe, and deeply integrate with other businesses of the Group to actively explore more synergy effects.

In addition to actively expanding its business, Impro has been deeply engaged in the Environment, Social and Governance (ESG) area, and its outstanding performance continues to be highly recognized. During the year, the Group was awarded the "Excellent ESG Enterprise" by Hong Kong Economic Times for the third consecutive year. In addition, the Group was also awarded the "Outstanding Green and Sustainable Loan Issuer (Precision Manufacturing) — Outstanding Visionary Sustainability Linked Loan Performance Indicator" organized by Hong Kong Quality Assurance Agency in recognition of Impro's active issuance of green and sustainable financial instruments to support Hong Kong's development into a green and sustainable financial hub in the region. In January 2024, the Group was once again awarded the Bronze Medal by EcoVadis, a global reputable corporate social responsibility rating agency.

CHAIRMAN'S STATEMENT

The Group's performance, strategic vision and value growth have also been recognized again by the market, including the "Multi-Regional Enterprise — Outstanding Award" received at the Standard Chartered Corporate Achievement Awards Ceremony 2023 during the year, the "Listed Company Awards of Excellence" by Hong Kong Economic Journal, a major financial media in Hong Kong, for three consecutive years, the "Outstanding Listed Companies Award 2023" from IFAPC and the "Outstanding High-end Manufacturing Enterprise of the Year Award" by China's leading global investment platform Guruclub .

OUTLOOK

Looking ahead to 2024, the global market remains challenging and the global economy is still shrouded in slowing growth, high inflation rate, potential geopolitical conflicts and multilateral tensions. In the face of challenges, the Group will continue to adhere to the three major strategies of "Global Footprint", "Diversified End-markets", and "Twin Growth Engine", maintain the global cross-regional distribution of business and the characteristics of diversification and dispersion of end-markets, so as to effectively reduce related risks to drive profit stability and growth. Despite the possibility of cyclical fluctuations and downward pressure in certain end-markets of the Group in 2024, the Group remains quite confident in overall business growth prospect in 2024. Considering the Group's total order on hand and future new project development, the Company forecasts that the year-on-year sales growth will be approximately between 5% and 10% in 2024.

The Group expects the performance of the aerospace end-market business to continue to grow strongly. The international aerospace market has continued to embark on the road to full recovery since 2023, coupled with the significant decrease in the number of competitors in the aerospace supply chain, it is expected that aerospace end-market business of the Group will continue to show a strong growth. In addition, in the fourth quarter of 2023, the Group decided to merge Foshan Ameriforge and Nantong Plant 12 in order to further enhance production capacity and operational efficiency, improve the Group's production layout in the aerospace and energy end-markets businesses, so as to more effectively integrate and expand the "Aerotek Business Unit" established by the Group under its forward looking footprint to exert synergies and consolidate the Group's strengths in the aerospace end-market. In addition, with the rapid development of artificial intelligence, the demand for artificial intelligence-related big data centers in the European and American markets has increased significantly, which has led to a substantial increase in demand for high horsepower engines as a critical component of the distributed power generators. The Group expects that the performance of the high horsepower engine end-market will further grow significantly. The Group is also vigorously developing its medical end-market business, which is expected to make an important contribution to the Group's profit growth in the future.

CHAIRMAN'S STATEMENT

In terms of production, the Mexico SLP campus will further leverage its advantages as a key link in the Group's global production layout. Although the three plants in the campus that have been put into production recorded a higher loss in 2023, the Group is confident and will endeavour to significantly reduce its losses in 2024. As for the remaining aerospace components and surface treatment plants, the Group is striving to complete the installation of production lines and commence aerospace system certification and trial production in 2024. It is anticipated that the ramp-up phase will begin in 2025, effectively supporting the Group's continuous growth in the aerospace end-market. In view of the significant future growth expectations of the Group's Mexico SLP campus, the Group will deploy the second phase plant construction in the Mexico SLP campus, thereby more aggressively expanding its competitive advantages in terms of location, productivity and others. Looking ahead, the Group's capital expenditures are expected to be approximately HK$550 million in 2024, of which approximately HK$260 million will be allocated for the Mexico SLP campus, while the remaining amount will be utilized mainly for the plants in the PRC and Turkey.

In terms of profit, although the Mexico SLP campus business will lead to greater depreciation costs and staff training costs, extreme high inflation rate in Turkey also resulted in a surge in operating costs for local plants, and forex fluctuations will also inevitably put pressure on the profit margin of the Group; however, with the Mexican plants expected to significantly reduce losses and the resumption of production in the Nantong plant, coupled with stable interest rates and the potential for future decreases, the Group's global operations will bring sufficient opportunities for profit growth.

In the future, the Group will continue to cultivate deeply into the aerospace, energy and medical fields as well as the diversified industrials end-markets, capitalize on its competitive edges in the automotive end-market to consolidate its global manufacturing and marketing network in Asia, Europe and the Americas, give full play to the unique advantages of "Global Footprint" and "Diversified End-markets", and respond to the complex and ever-changing global macro market environment with solid business foundation and excellent and flexible adaptability. Meanwhile, the Group will continue to implement the "Twin Growth Engines" strategy and seek for acquisition targets that can bring synergy effects, continue to enhance its research and development capabilities, provide customers with high quality and diverse products and services, continuously achieve self-improvement, and create long-term value and satisfactory returns for its Shareholders.

On behalf of the Board, I would like to express my sincere gratitude to all our customers, Shareholders, employees, suppliers and other stakeholders for their continuous support.

LU Ruibo
Chairman and Chief Executive Officer

Hong Kong, 12 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

HK$ million	Year ended 31 December 2023	2022	Change
Revenue	**4,604.4**	4,354.7	5.7%
Gross profit	**1,178.3**	1,261.0	-6.6%
Gross profit margin	***25.6%***	*29.0%*	*-3.4%*
Other revenue	**30.2**	23.9	26.4%
Other net income/(loss)	**20.0**	(24.6)	-181.3%
Selling and distribution expenses	**(158.5)**	(180.7)	-12.3%
As a % of revenue	***3.4%***	*4.1%*	*-0.7%*
Administrative and other operating expenses	**(341.7)**	(334.7)	2.1%
As a % of revenue	***7.4%***	*7.7%*	*-0.3%*
Profit from operations	**728.3**	744.9	-2.2%
Operating profit margin	***15.8%***	*17.1%*	*-1.3%*
Net finance costs	**(108.4)**	(55.9)	93.9%
Profit before taxation	**619.9**	689.0	-10.0%
Income tax	**(33.1)**	(106.2)	-68.8%
Adjusted effective tax rate[1]	***18.4%***	*15.9%*	*2.5%*
Profit for the year	**586.8**	582.8	0.7%
Net profit margin	***12.7%***	*13.4%*	*-0.7%*
Profit attributable to:			
Equity shareholders of the Company	**585.1**	582.0	0.5%
Non-controlling interest	**1.7**	0.8	112.5%
	586.8	582.8	0.7%

Note:

1 Adjusted effective tax rate is computed as below:

	Year ended 31 December 2023 HK$ million	2022 HK$ million
Profit before taxation	**619.9**	689.0
Add:		
— Impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident, net of insurance claims received	**(17.2)**	80.4
— Gain on disposal of a Germany plant's land, property and machinery	**–**	(18.3)
— Provision for staff severance in relation to the relocation of the Foshan Ameriforge Plant to Nantong and its merger with Nantong Plant 12	**7.2**	–
Adjusted profit before taxation	**609.9**	751.1
Income tax	**(33.1)**	(106.2)
Add: Tax impact on adjusting items above	**1.5**	(13.0)
Less: Recognition of deferred tax assets by a Turkish subsidiary in accordance with inflation accounting as prescribed by the Turkish Tax Procedure Code (net of 10% dividend withholding tax)	**(80.8)**	–
Adjusted income tax	**(112.4)**	(119.2)
Adjusted effective tax rate	**18.4%**	15.9%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2023 increased by 5.7% to HK$4,604.4 million as compared to last year of HK$4,354.7 million. In local currencies, the Group's revenue increased by 5.8% year-on-year since the negative impact brought by the 4.4% depreciation of RMB against HK$ was basically offset by 3.3% appreciation of Euro against HK$ during the year.

Gross profit and gross profit margin

The Group's gross profit decreased by HK$82.7 million, or 6.6% to HK$1,178.3 million for the year ended 31 December 2023 as compared to HK$1,261.0 million for the year ended 31 December 2022. The gross profit of investment casting business has decreased by HK$10.8 million, or 1.7% to HK$630.0 million, mainly due to lower gross profit contribution from diversified industrials end-market sales. The gross profit of precision machining and other business increased by HK$17.8 million to HK$375.8 million due to gross profit contribution from the hydraulic orbital motor and Foshan Ameriforge businesses acquired by the Group in 2022, partially offset by the decline of gross profit of Mexican and Turkish precision machining plants. The gross profit of sand casting business dropped by HK$44.5 million, or 20.0% to HK$177.7 million mainly as a result of the gross loss reported in Mexican sand casting plants due to the lower-than-expected ramp up of revenue and the appreciation of Mexican Peso. Surface treatment business reported a gross loss of HK$5.2 million as the Nantong plant was still under reconstruction in 2023 since the fire incident in June 2022.

The Group's gross profit margin was 25.6% for the year ended 31 December 2023, compared with 29.0% in last year. The decrease in gross profit margin was mainly attributed to the lower-than-expected revenue growth from the Mexican plants and unfavorable Mexican currency movement, the decline in profit in the surface treatment business and Turkish precision machining plants.

Other revenue

During the year ended 31 December 2023, the Group's other revenue increased by HK$6.3 million to HK$30.2 million (2022: HK$23.9 million). Other revenue mainly represented various discretionary incentives from the local PRC governments in relation to technology development and other incentive programs.

Other net income/(loss)

The Group recorded other net income of HK$20.0 million for the year ended 31 December 2023 (2022: other net loss of HK$24.6 million). Other net income mainly represented insurance compensation received from the Nantong fire incident of HK$17.2 million, and a net foreign exchange gain of HK$7.4 million arising mainly from depreciation of RMB against HK$. In 2022, other net loss mainly represented the impairment loss provision of property, plant and equipment & inventories as a result of Nantong fire incident net of insurance claims received of HK$80.4 million, gain on disposal of a Germany plant's land, property and machinery of HK$18.3 million and the net foreign exchange gain of HK$43.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

The Group's selling and distribution expenses decreased by HK$22.2 million, or 12.3%, to HK$158.5 million for the year ended 31 December 2023 from as compared to HK$180.7 million for the year ended 31 December 2022. The decrease in selling and distribution expenses was mainly due to lower ocean freight expenses. Selling and distribution expenses to revenue ratio was 3.4% for the year ended 31 December 2023 (2022: 4.1%).

Administrative and other operating expenses

The Group's administrative and other operating expenses increased by HK$7.0 million, or 2.1%, to HK$341.7 million for the year ended 31 December 2023, as compared to HK$334.7 million in last year. The increase in administrative and other operating expenses was mainly attributable to the consolidation of Foshan Ameriforge and hydraulic orbital motor business acquired by the Group in the second half of 2022. Administrative and other operating expenses to revenue ratio was 7.4% for the year ended 31 December 2023 (2022: 7.7%).

Net finance costs

The Group's net finance costs increased by HK$52.5 million to HK$108.4 million for the year ended 31 December 2023. The increase was mainly attributable to the increase in the average bank loan balances and a significant increase in interest rates for USD and HKD borrowings during the year ended 31 December 2023.

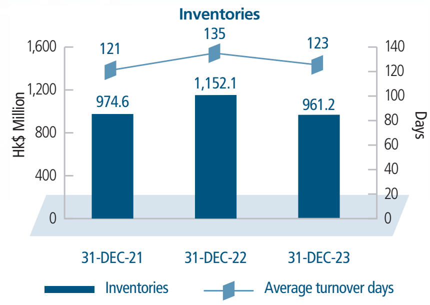
Income tax

The Group's income tax expenses decreased to HK$33.1 million for the year ended 31 December 2023 from HK$106.2 million for the year ended 31 December 2022. Income tax expenses were lower in 2023 mainly due to the one-off recognition of deferred tax assets of HK$80.8 million of a Turkish subsidiary in accordance with inflation accounting as prescribed by the Turkish Tax Procedure, net of 10% dividend withholding tax. Adjusted effective tax rate was 18.4% for the year ended 31 December 2023 (2022: 15.9%).

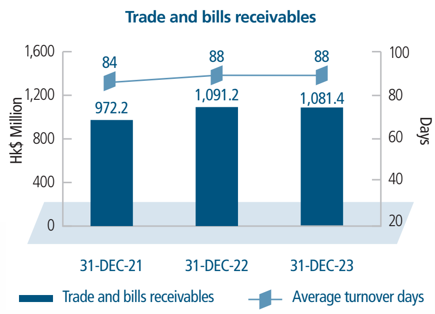
Working capital

	As at 31 December 2023 HK$ million	As at 31 December 2022 HK$ million
Inventories	**961.2**	1,152.1
Trade and bills receivables	**1,081.4**	1,091.2
Prepayments, deposits and other receivables	**302.9**	219.2
Trade payables	**(519.5)**	(457.8)
Other payables and accruals	**(308.9)**	(303.1)
Deferred income	**(135.1)**	(129.4)
Defined benefit retirement plans obligation	**(64.3)**	(67.3)
Total working capital	**1,317.7**	1,504.9
Total working capital / Revenue	**28.6%**	34.6%

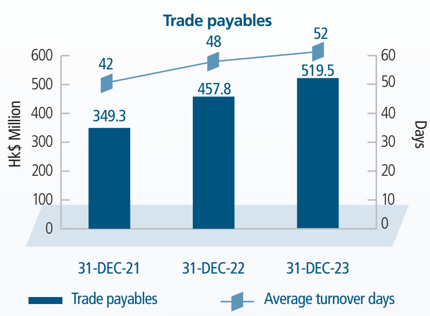
Inventories decreased by HK$190.9 million to HK$961.2 million as of 31 December 2023 (31 December 2022: HK$1,152.1 million) mainly due to tightened inventory management during the year ended 31 December 2023. Inventory turnover days decreased 12 days to 123 days as at 31 December 2023 from 135 days as at 31 December 2022, due to the Group's strategic decision to reduce inventory holding and higher revenue reported during the year ended 31 December 2023.



Trade and bills receivables decreased by HK$9.8 million to HK$1,081.4 million as of 31 December 2023 (31 December 2022: HK$1,091.2 million) mainly due to the Group's efforts to strengthen credit control of customers. Trade and bills receivables average turnover days remained at 88 days as at 31 December 2023 and 2022. The management of the Group is of the view that the Group's receivables are of high quality and the Group has not encountered any material default payment from customers. As at 31 December 2023, current receivables and overdue balances of less than 30 days has maintained at 94.4% (as at 31 December 2022: 90.4%) of the balance of the gross trade and bills receivables.



Trade payables increased by HK$61.7 million to HK$519.5 million as of 31 December 2023 (31 December 2022: HK$457.8 million). The increase was generally in line with the increase in the scale of business operation. Trade payable average turnover days as at 31 December 2023 increased to 52 days as compared to 48 days as at 31 December 2022.



EBITDA and Net profit

The Group's EBITDA was HK$1,224.9 million, or EBITDA margin of 26.6% for the year ended 31 December 2023, as compared to HK$1,165.5 million, or EBITDA margin of 26.8% in last year. Profit attributable to equity shareholders of the Company was HK$585.1 million, as compared to a profit of HK$582.0 million in last year. Net profit margin for the year ended 31 December 2023 was 12.7%, as compared to 13.4% in last year.

Excluding the impact of impairment loss provision (net of insurance claims received) of property, plant and equipment & inventories as a result of the Nantong fire incident, provision for staff severance in relation to the relocation of the Foshan Ameriforge Plant to Nantong and its merger with Nantong Plant 12 and gain on disposal of a Germany plant's land, property and machinery, the Group's adjusted EBITDA margin was 26.4%, which was 1.8% lower than 28.2% attained in last year, and the adjusted profit attributable to shareholders of the Company was HK$532.0 million for the year ended 31 December 2023, a decrease of 18.0% as compared to HK$649.1 million in last year. Adjusted net profit margin was 11.6% for the year ended 31 December 2023, as compared to 14.9% attained in last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial resources and liquidity

As at 31 December 2023, the total assets of the Group increased by 6.9% to HK$8,300.9 million and total equity increased by 11.4% to HK$4,900.9 million as compared to the amount as at 31 December 2022. The increase of total assets was mainly attributable to the addition in construction in progress and property, plant and equipment as the Group continued its investment in plants construction in Mexico and China during the year ended 31 December 2023. The Group's current ratio as at 31 December 2023 was 1.55, as compared to 1.63 as at 31 December 2022. The change in current ratio was primarily due to reduction in inventories and trade and bills receivables during the year ended 31 December 2023.

The Group continues to adopt a prudent financial management and treasury policy to the effect that the Group can maintain a healthy financial position through different business cycles and achieve a long-term sustainable growth. The Group's business requires a significant amount of working capital for the purchase of raw materials, capital expenditures and product development cost. The Group had operating cash inflow of HK$1,281.4 million for the year ended 31 December 2023. The funds generated from operations and cash on hand are adequate to fund the liquidity and capital requirements.

The Group will continue to adopt prudent financial management and treasury policy. To the extent that there is any surplus cash which has yet to be used for the designated purposes, the Group will deposit such cash with different licensed banks or financial institutions and/or subscribe for short-term debt instruments for the purpose of generating interest income.

The table below sets forth a consolidated cashflow statement for the Group for the years indicated:

	Year ended 31 December	
	2023	2022
	HK$ million	HK$ million
Cash generated from/(used in):		
Operating activities	**1,281.4**	837.5
Investing activities	**(772.9)**	(1,213.5)
Financing activities	**(359.7)**	319.8
Net movement in cash	**148.8**	(56.2)

Cash generated from operating activities was HK$1,281.4 million for the year ended 31 December 2023, an increase of HK$443.9 million compared to HK$837.5 million in last year. The increase in cash flows from operating activities was mainly due to reduction in net working capital.

Cash used in investing activities was HK$772.9 million for the year ended 31 December 2023, a decrease of HK$440.6 million compared to HK$1,213.5 million in last year. The major items on investment activities were payment for capital expenditures which included purchases of machinery, equipment, tooling and infrastructure of HK$711.4 million.

The table below sets forth the cash used in investing activities for the years indicated:

	Year ended 31 December	
	2023	2022
	HK$ million	HK$ million
Payment of property, plant and equipment	**(711.4)**	(634.9)
Proceeds from disposal of property, plant and equipment	**6.6**	38.0
Payment for deferred expenses	**(76.0)**	(76.1)
Acquisition of businesses, net of cash acquired	**–**	(545.0)
Interest received	**7.9**	4.5
Net cash used in investing activities	**(772.9)**	(1,213.5)

Cash used in financing activities was HK$359.7 million for the year ended 31 December 2023, compared to cash generated from financing activities of HK$319.8 million in last year. The change was mainly due to the two acquisitions in 2022 which required more bank borrowing to fund the investing activities.

The table below sets forth the cash (used in)/generated from financing activities for the years indicated:

	Year ended 31 December	
	2023	2022
	HK$ million	HK$ million
Proceeds from bank loans	**1,295.0**	1,626.6
Repayment of bank loans	**(1,228.3)**	(950.7)
Interest paid	**(115.5)**	(59.6)
Payment of lease rentals	**(15.7)**	(9.4)
Proceeds from exercise of share options	**6.5**	3.0
Dividend paid	**(301.7)**	(286.3)
Dividend paid to non-controlling interest	**–**	(3.8)
Net cash (used in)/generated from financing activities	**(359.7)**	319.8

MANAGEMENT DISCUSSION AND ANALYSIS

Indebtedness

As at 31 December 2023, the Group's total borrowings were HK$2,257.8 million, an increase of HK$51.9 million from HK$2,205.9 million as at 31 December 2022. Long-term borrowings accounted for 54.1% of total borrowings (as at 31 December 2022: 56.6%).

The table below sets forth the balances of short and long-term borrowing obligations within the Group as at the date indicated:

	As at 31 December 2023 HK$ million	As at 31 December 2022 HK$ million
Current bank loans	**1,028.6**	942.4
Non-current bank loans	**1,211.9**	1,244.2
Current lease liabilities	**7.7**	14.4
Non-current lease liabilities	**9.6**	4.9
Total borrowings	**2,257.8**	2,205.9

As at 31 December 2023, the Group had total banking facilities available for draw-down of HK$1,785.6 million (as at 31 December 2022: HK$1,114.4 million).

The Group's net gearing ratio as at 31 December 2023 was 33.2% (as at 31 December 2022: 39.2%). This ratio is based on total borrowings less cash and cash equivalents divided by total equity. The gearing level has decreased mainly due to strong operating cash flow during the year ended 31 December 2023.

Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditures. Capital expenditures of the Group amounted to HK$713.0 million for the year ended 31 December 2023 (2022: HK$599.7 million) which was primarily used in the production capacity expansion in the Group's PRC plants, as well as the infrastructure and machinery spending for the new plants in Mexico. Among which, the Group incurred HK$319.9 million (2022: HK$353.1 million) for the development of new plants in Mexico, including the purchases of machinery and construction of precision machining, sand casting, investment casting, aerospace and surface treatment plants. Capital commitments contracted for but not incurred by the Group as at 31 December 2023 amounted to HK$286.5 million (as at 31 December 2022: HK$232.9 million), which were mainly related to plants construction and acquisition of machinery.

Pledge of Assets

No property, plant and equipment of the Group were pledged as security for bank borrowings/facilities as at 31 December 2023 (as at 31 December 2022: nil).

Contingent Liabilities

No material contingent liability existed as at 31 December 2023.

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

Save as disclosed below, the Group had neither material acquisition nor disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2023.

Significant Investments

As at 31 December 2023, the Group did not have any significant investment which accounted for more than 5% of the Group's total assets as at 31 December 2023.

Treasury Policies and Exposure to Fluctuation in Exchange Rates

The Group has adopted a prudent approach on treasury management for the purpose of allocating sufficient financial resources to different subsidiaries within the Group with minimised amount of financial cost.

The Group's revenue was mainly denominated in USD, EUR and RMB while most of the cost of sales was denominated in RMB, TL, EUR and MXN. As a result, exchange rate fluctuations between the above-mentioned foreign currencies against HK$ could affect the Group's performance and asset value in the reporting currency of HK$.

To reduce the exposure to foreign currency exchange risk, the Group's management monitors the foreign exchange rates from time to time and may adjust the currency mix of the loan portfolio in a proportion that resembled the respective underlying revenue currency proportion with a view to reducing the impact of exchange rate fluctuations. As at 31 December 2023, the borrowings of the Group were denominated in HK$, USD and RMB in which HK$830.7 million of borrowings were at fixed interest rates, while the cash and cash equivalents were mainly denominated in RMB, USD, TL, MXN and HK$.

The Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations. During the year ended 31 December 2023, the Group did not use any financial instrument for hedging purpose.

Employees and Remuneration Policy

As at 31 December 2023, the Group had 7,681 full-time employees of whom 5,858 were based in China and 1,823 were based in Turkey, Germany, Mexico, Hong Kong, United States and other countries. The total staff costs, including the emoluments of the Directors, amounted to HK$1,167.0 million for the year ended 31 December 2023 (2022: HK$1,115.3 million).

The management of the Group maintains good working relationship with its employees and provides training when necessary to keep its employees informed of the latest information on developments of its products and production processes. Remuneration packages offered to the Group's employees are generally competitive and consistent with the prevailing levels in the market and are reviewed on a regular basis. Apart from basic remuneration and the statutory retirement benefit scheme, discretionary bonuses and share option may be provided to selected employees taking into consideration the Group's performance and the performance of the individual employee.

The Company adopted a Pre-IPO share option scheme for its employees.

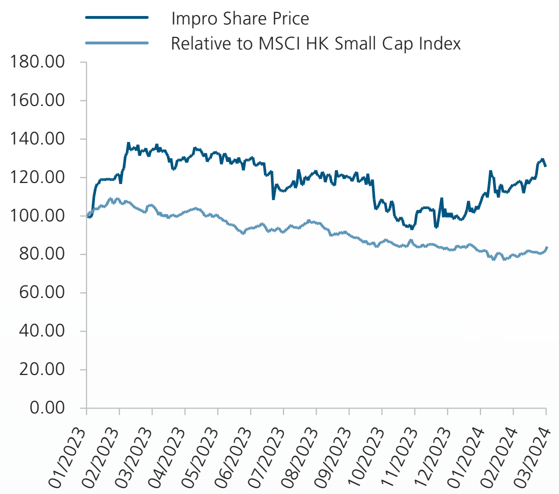
INVESTOR RELATIONS

Impro's success hinges on the long term support of our Shareholders. We maintain an effective engagement with investors through meetings, participation in investment conferences, plant visits as well as roadshows. This is to ensure they have a thorough understanding of our business, and to provide them with updates on our operations.

SHAREHOLDER VALUE

We are committed to creating sustainable value for our Shareholders, as demonstrated by the increasing dividend payout ratio and dividend payment amount over the past 5 years.

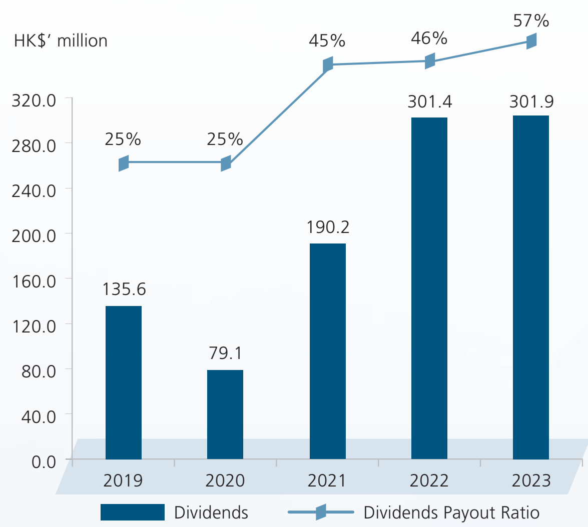
IMPRO SHARE PRICE SINCE 2023



Share Price Performance

For the year ended 31 December	2023
Highest closing price	**HK$3.09**
	(13 February 2023)
Lowest closing price	**HK$2.06**
	(7 November 2023)

DIVIDENDS AND DIVIDEND PAYOUT RATIO IN LAST 5 YEARS



Dividend Payments

The Group's dividend payout ratio is linked to its operating earnings performance, financial position and future investment opportunities. Taking into account the sound cash flow position and business prospect of the Group, the Board resolved to declare a second interim dividend of 2023 of 8.0 HK cents per share. Along with the first interim dividend of 2023 of 8.0 HK cents per share, dividend for the year amounted to 16.0 HK cents per share or equivalent to a 57% dividend payout ratio based on the adjusted profit attributable to shareholders of the Company for the financial year 2023. Details of the Group's dividend policy are set out in the Report of the Directors on page 57.

CORPORATE GOVERNANCE

We believe that high standards of corporate governance are required to execute corporate strategy well and generate increasing value for shareholders over the long term. Details of our progress in this respect can be found in the corporate governance report on pages 37 to 50.

INVESTOR RELATIONS

INVESTOR COMMUNICATIONS

We make every effort to maintain an open dialogue with shareholders and potential investors, listening carefully to all views expressed and keeping stakeholders fully informed of material developments. The channels we use to communicate with stakeholders include:

- Analyst briefings on the Group's interim and annual results, including presentation materials posted on the corporate website
- Investor conferences and post-results roadshows
- Meetings and conference calls
- Visits to the Group's manufacturing facilities in China, Turkey and Mexico
- An easily accessible Investors section on the corporate website, containing all key information and include an Investors Calendar section that lists out all company investor relations events
- Monthly IR newsletter
- A designated email for investors that makes communication easier

In addition to meeting with institutional investors, the Group also values its communication with retail investors. Therefore media briefings are held regularly to update the media the Group's latest development and to increase the Group's transparency at the retail investor level. The Group has also set up Impro Precision in numerous popular social media platforms and online stock trading apps subscription page for posting the Group's latest information regularly. The Group expects to enhance constructive and engaging conversations with various stakeholders from Hong Kong, China and the overseas through these platforms.

LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited: 1286

SHARE INFORMATION

Board lot: 1,000 shares

Issued shares as at 31 December 2023: 1,887,285,665

DIVIDEND

Dividend per share for the year ended 31 December 2023
— First interim dividend: 8.0 HK cents per share
— Second interim dividend: 8.0 HK cents per share

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

INVESTOR RELATIONS

FINANCIAL CALENDAR

2024	
25 March 2024	Ex-dividend date
27 March - 2 April 2024 (both days inclusive)	Closure of Register of Members — Payment of 2023 second interim dividend
11 April 2024	Payment of 2023 second interim dividend
14 – 20 May 2024 (both days inclusive)	Closure of Register of Members — Annual General Meeting
20 May 2024	2023 Annual General Meeting
August 2024	2024 Interim Results Announcement

INVESTOR RELATIONS CONTACT AND WEBSITE

Investor Relations Department

Unit 803, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

Tel: (852) 2572 8628
Fax: (852) 2572 8638
Email: ir@impro.com.hk
www.improprecision.com/investors

CORPORATE SUSTAINABILITY

As the world's leading investment casting component manufacturer, the Group has established strategic and long-term cooperative relationship with global recognized industrial leaders, and has passed their strict certification requirements. Driven by the requirements of various systems, we continue to optimize the quality of products and services with innovative technologies, initiate the creation of green and safe production environment with our sense of responsibility of a social citizen, attract excellent talents with incentive and supportive ideas, and contribute to the community.

By optimizing production schedule, investment in reusable energy, improvement to production process and change in product mix, the Group achieved remarkable reduction in greenhouse gas emission intensity, energy consumption intensity and water consumption intensity in 2023 by 10.6%, 11.5% and 26.1% respectively, as compared to last year. On an accumulated basis, the Group has accomplished all the 2030 greenhouse gas emission, energy consumption and water consumption intensity reduction goals and reduced these intensities by 41.1%, 32.4% and 57.9% respectively. The Group's Sustainability Committee is currently considering the formulation of new targets which will be announced in due course.

Our 2030 Goals

- GHG emission intensity ⬇**30%** compared to 2020
- Energy consumption intensity ⬇**30%** compared to 2020
- Water consumption intensity ⬇**40%** compared to 2020

The footprints of the Group have reached various regions around the world and we endeavor to create value for the local communities in the places where we operate, to invest in the well being of our people and to operate in accordance with high ethical and environmental standards. In 2023, the Group completed the first phase of the new Mexico SLP village and refurnished Yixing China staff quarters in order to improve the living quality and happiness of employees.

During the year, the Group was awarded the "Excellent ESG Enterprise" by Hong Kong Economic Times for the third consecutive year. In addition, the Group was also awarded the "Outstanding Green and Sustainable Loan Issuer (Precision Manufacturing) — Outstanding Visionary Sustainability Linked Loan Performance Indicator" organized by Hong Kong Quality Assurance Agency in recognition of Impro's active issuance of green and sustainable financial instruments to support Hong Kong's development into a green and sustainable financial hub in the region. In January 2024, the Group was once again awarded the Bronze Medal by EcoVadis, a global reputable corporate social responsibility rating agency.

The Group reports its sustainability performance in details in a separate 2023 ESG Report. The report is available in English and traditional Chinese. It is prepared with reference to the ESG Reporting Guide for listed companies issued by The Stock Exchange of Hong Kong Limited, Global Reporting Initiative's (GRI) standards core option and United Nation's sustainable development goals. Past ESG reports are available at Company's and also in the Stock Exchange's website.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FRAMEWORK

The Company has adopted the principles and code provisions according to the Corporate Governance Code (the "**CG Code**") of Appendix C1 of the Listing Rules as the basis of the Company's corporate governance practices with effect from the Listing Date.

The Company is committed to maintaining high standards and has applied the Principles that are set out in the CG Code as set out in Appendix C1 of the Listing Rules. The Company's corporate governance practices are based on these Principles. The Board believes that good corporate governance standards are essential in contributing to the provision of a framework for the Company to safeguard the interests of its shareholders, enhance corporate value, formulate its business strategies and policies, and enhance transparency and accountability.

In the opinion of the Directors, the Company has complied with all the code provisions of the CG Code and to a large extent the recommended best practices in the CG Code during the year ended 31 December 2023, except for the deviation from code provision C.2.1 of the CG Code as described below.

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. LU Ruibo ("**Mr. LU**") is our Group's Chairman and CEO. Since the founding of our Group in 1998, Mr. LU has been responsible for formulating our overall business development strategies and leading our overall operations, and therefore has been instrumental to our growth and business expansion. Mr. LU's vision and leadership have played a pivotal role in our Group's success and achievements to date, and therefore our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. Our long-serving and outstanding senior management team and our Board, which comprise experienced and high-caliber individuals, provide a check on balance of power and authority. Our Board comprises five executive Directors (including Mr. LU) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

BOARD OF DIRECTORS

Roles and Responsibilities

The Group endeavours to enhance corporate efficiency and profitability through the Board. The directors recognise their collective and individual responsibility to the shareholders and perform their duties diligently to contribute to positive results for the Group and maximise returns for shareholders.

CORPORATE GOVERNANCE REPORT

The Board's focus is on the formulation of business strategy and policy, and control. Matters reserved for the Board are those affecting the Company's overall strategic policies, finances and shareholders. These include, but not limited to the following:

- determining business plans and strategies, risk management, internal control;
- preliminary announcements of interim and annual results, and interim and annual reports;
- dividend policy;
- annual and quarterly financial forecast;
- major corporate activities such as material acquisitions and capital expenditures; and
- Directors' appointment, re-election and recommendations.

The Board may delegate part of its functions and duties to executive committees and day-to-day operational responsibilities are specifically delegated to the management, specifying matters which require approval by the Board.

The Company has arranged a Directors' and Officers' liability insurance policy, and the insurance coverage and the sum insured under the policy are renewed annually.

Board Composition

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance. It recognises diversity at Board level is an essential element in maintaining competitive advantage and sustainable development. The Board considers it vital to have the appropriate balance of skills, experience and diversity of perspectives that are needed to support the execution of its business strategies.

As at 31 December 2023, the Board comprised five executive Directors and three independent non-executive Directors, whose biographical details are set out in the section headed "Directors and Senior Management" on pages 51 to 56 of this annual report.

	Name of Directors	**Relevant Board Committees**
Executive Directors (EDs)	Mr. LU Ruibo (Chairman and CEO)	NC RC
	Ms. WANG Hui, Ina	
	Mr. YU Yuepeng	SC
	Ms. ZHU Liwei	SC
	Mr. WANG Dong	SC
Independent Non-executive Directors (INEDs)	Mr. YU Kwok Kuen Harry	AC RC
	Dr. YEN Gordon	AC NC SC
	Mr. LEE Siu Ming	AC NC RC SC

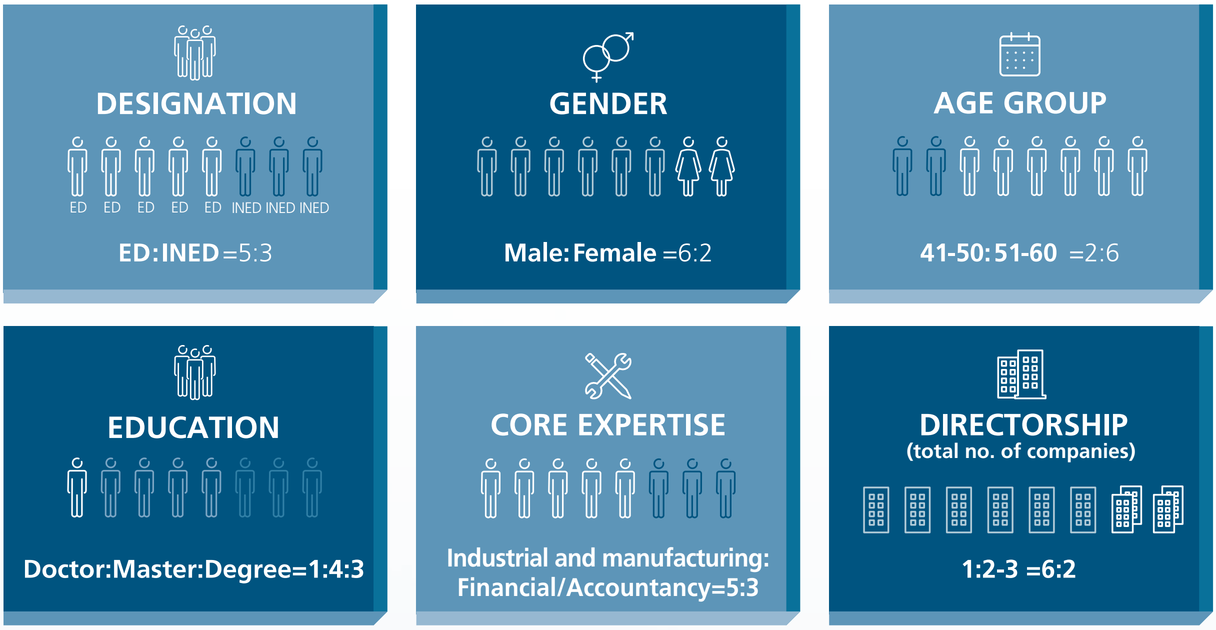
Mr. LU Ruibo is the spouse of Ms. Wang Hui, Ina.

The Company has received from all independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors to be independent.

CORPORATE GOVERNANCE REPORT

Board Diversity

The Company has reviewed board diversity policy during the year ended 31 December 2023. In designing, reviewing and assessing the Board's composition, board diversity is considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of service and time to be devoted to being a director. The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for it to be effective. The analysis of the Board's composition as at 31 December 2023 is:



As for the gender composition, currently the Board has 2 female directors and one female senior management. The Board considered that we already have some extent of gender diversity in both board and senior management team perspectives and will continue to identify suitable candidate(s) on further enhancing the gender diversity in the future. We will also ensure that there is gender diversity when recruiting staff at mid to senior level and provide more suitable on-job training to them, so that we will have a pipeline of female senior management and potential successors to the Board in near future.

As at 31 December 2023, the Group had a total of 7,681 staff, comprising 5,537 male staff and 2,144 female staff. As such, the Group has achieved gender diversity in respect of its workforce. The Group will continue to strive to enhance female representation and achieve and maintain an appropriate balance of gender diversity in its workforce in near future.

Note: Directorship (total number of companies) including the Company but excluding unlisted company(ies) in all countries.

Appointment and Re-election of Directors

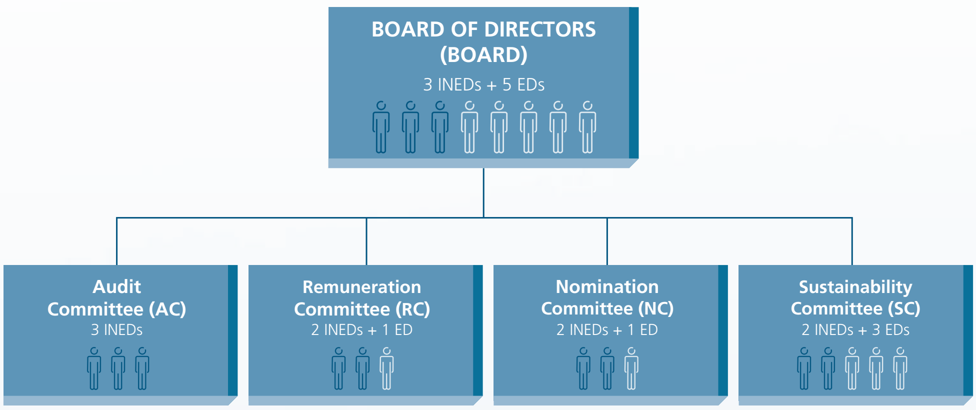
There is a written nomination policy and process (a formal, considered and transparent process) for the selection and appointment of new director(s) and there is a plan in place for orderly succession for appointments. All Directors are subject to retirement by rotation at least once every three years.

The independent non-executive Directors have letters of appointment from the Company for a term of three years that commenced on 1 April 2022. They are subject to retirement by rotation and are eligible for re-election at the AGM at least once every three years.

Board Committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established four Committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Sustainability Committee. The Audit Committee only comprises independent non-executive Directors as members in order to ensure independence, while the Remuneration Committee and the Nomination Committee comprise a majority of independent non-executive Directors so that effective independent judgement can be exercised.

The following chart shows the corporate governance structure of the Board as at 31 December 2023:



The reports of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Sustainability Committee for the year are set out below.

In order to comply with the Listing Rules and the CG Code, the terms of reference of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Sustainability Committee of the Company and the list of directors and their roles and functions are regularly revised and updated, and are published on the websites of the Company and the Stock Exchange respectively.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE REPORT

The Audit Committee comprised three members, each of whom is an independent non-executive Director:

- Mr. YU Kwok Kuen Harry (Chairman)
- Dr. YEN Gordon
- Mr. LEE Siu Ming

The Board considers the Audit Committee to have appropriate, relevant financial, accounting and auditing experience and each member is independent as required by the Listing Rules. The Audit Committee met three times during the year ended 31 December 2023 and all members attended each meeting. The Chief Financial Officer attended the meeting of the Audit Committee by invitation. There is active contact among the members of the Audit Committee between meetings.

The main duties of the Audit Committee are as follows:

(i) to review the half-year and annual consolidated financial statements before they are submitted to the Board for approval;
(ii) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
(iii) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
(iv) to review the Company's financial controls, internal controls and risk management systems;
(v) to review the Group's financial and accounting policies and practice; and
(vi) to review and monitor the effectiveness of the internal audit function.

Details of the Audit Committee's terms of reference can be found on the websites of the Company and the Stock Exchange.

The Audit Committee reviewed the unaudited consolidated financial statements for the six months ended 30 June 2023 and the audited consolidated financial statements for the year ended 31 December 2023 together with the external auditors satisfying itself as to the extent of work done by the external auditors, the consistent application of Group's accounting policies, the appropriateness of financial judgements applied. In view of their material significance to the Group, the Audit Committee has given ongoing attention to the loss allowance for trade receivables, valuation of inventory and potential goodwill impairment. The Audit Committee was satisfied with the outcome of its various reviews and recommended the consolidated financial statements to the Board for approval. The Audit Committee also had conducted a review of the effectiveness of the system of internal control and internal audit function of the Group. The Board has not taken a different view from that of the Audit Committee regarding the selection, resignation or dismissal of the external auditors.

The Audit Committee reviewed the work plan by the Internal Audit Department to ensure that, over a number of years, all areas of the Group are audited as regards financial and material internal controls. As the work is carried out, detailed reports are submitted to the Audit Committee for review and comment before being released more generally. The Audit Committee satisfies itself as to the quality and focus of the work done by the Internal Auditors, they have been given appropriate access and co-operation in conducting their work and that senior management is overseeing the implementation of any remedial actions required. Occasionally, the Chief Executive Officer or the Board may require the Internal Audit Department to focus on a short-term, urgent matter and the agreement of the Audit Committee is sought. The Audit Committee may from time to time recommend to the Chief Executive Officer proposals regarding the structure and staffing of the Internal Audit Department.

REMUNERATION COMMITTEE REPORT

The Remuneration Committee comprises three members:

- Mr. LEE Siu Ming (Chairman) — independent non-executive Director
- Mr. YU Kwok Kuen Harry — independent non-executive Director
- Mr. LU Ruibo — executive Director, CEO and chairman of the Board

The Remuneration Committee met one time during the year ended 31 December 2023 and all members attended the meeting.

The main duties of the Remuneration Committee are as follows:

(i) to establish and review the policy and structure of the remuneration for the directors and senior management; and
(ii) to determine the remuneration packages of individual directors and senior management.

Details of the Remuneration Committee's terms of reference can be found on the websites of the Company and the Stock Exchange.

At Impro, remuneration and incentive schemes are linked to the achievement of current and next years' performance goals. All global staff positions, including executive directors and senior management, are governed by an evaluation methodology which takes into staff entrepreneurial spirit, proactiveness, innovativeness, leadership and execution ability, etc. Individual executive director and senior management acknowledges scope of responsibilities, contribution and performance. The base salary takes into account factors such as contribution to the business, employee retention and market remuneration. Annual incentives, when payable, are performance-based and include individual group company's and the Group's financial objectives as well as department objectives which may be non-financial (e.g. sustainability performance targets, etc.). No individual director or member of senior management team approves his or her own remuneration.

By providing total compensation at competitive industry levels, the Group seeks to attract, motivate and retain the key executives essential to its long term success. The Committee directs the management in the engagement of outside remuneration experts and stays abreast of remuneration practices among comparable companies around the world. Senior management and certain employees were also granted Pre-IPO Share Options so as to align the long term interest of management with those of shareholders.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2023, the Remuneration Committee discussed and agreed on

(a) current remuneration structure of the executive Directors and senior management;
(b) 2023 remuneration packages of independent non-executive Directors and executive Directors, and senior management; and
(c) 2024 annual guaranteed remuneration of independent non-executive Directors and executive Directors and senior management, and their key performance indicators bonus targets and computation criteria.

In determining the level of remuneration and fees paid to independent non-executive Directors for the Board approval, a review of current practices in comparable companies is regularly conducted.

NOMINATION COMMITTEE REPORT

The Nomination Committee comprises three members:

- Mr. LU Ruibo (Chairman) — executive Director, CEO and chairman of the Board
- Dr. YEN Gordon — independent non-executive Director
- Mr. LEE Siu Ming — independent non-executive Director

The main duties of the Nomination Committee are as follows:

(i) to review the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
(ii) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
(iii) to assess the independence of the INEDs of the Company; and
(iv) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors, in particular the chairman and the chief executive.

Details of the Nomination Committee's terms of reference can be found on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2023, the Nomination Committee held one meeting and all members attended the meeting, to (i) review the structure, size and composition of the Board and (ii) assess the independence of INEDs. In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional knowledge and experience, industry knowledge and experience and technical skills. The Nomination Committee would consider and, where applicable, agree on measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Nomination Committee has not set any measurable objectives for implementing the policy. The Nomination Committee considered the current composition of the Board to be appropriate taking into account of the above.

SUSTAINABILITY COMMITTEE REPORT

The Sustainability Committee comprises five members:

- Dr. YEN Gordon (Chairman) — independent non-executive Director
- Mr. LEE Siu Ming — independent non-executive Director
- Mr. YU Yuepeng — executive Director
- Ms. ZHU Liwei — executive Director
- Mr. WANG Dong — executive Director

The main duties of the Sustainability Committee are as follows:

(i) to review, formulate and endorse sustainability standards, priorities and goals of the Group;

(ii) to review and advise the Board on ESG reporting of the Company as regards its performance on sustainability matters, including, without limitation:

- determining the appropriate international or national standard (if any) on sustainability that the Company will monitor and report to on an annual basis;
- preparing an annual report on its activities for inclusion in the annual report of the Company or as a separate report for publication on the websites of the Stock Exchange and the Company; and
- reviewing and recommending to the Board for approval the annual ESG Report, and making recommendations on specific actions or decisions the Board should consider in order to maintain integrity of the ESG Report;

(iii) Sustainability performance

- to oversee, review and evaluate the Company's performance against the appropriate international or national standard (if any) on sustainability; and
- to recommend strategies for improvements in the sustainability performance of the Company;

(iv) to advise the Board on the adoption of sustainability targets and measures; sustainability risks and opportunities.

Details of the Sustainability Committee's terms of reference can be found on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2023, the Sustainability Committee held one meeting and all members attended the meeting, to (i) review, formulate and endorse sustainability standards, priorities and goals of the Group; and (ii) review and advise the Board on ESG report as regards its performance on sustainability key performance indicators (ESG KPIs) during the year ended 31 December 2023.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

Details of the emoluments paid or payable to the Directors and chief executive officer ("**CEO**") for the year ended 31 December 2023 are as follows:

	Directors' Fees HK$'000	Salaries, allowances and benefits HK$'000	Discretionary bonuses HK$'000 (note ii)	Retirement benefit schemes contributions HK$'000	Share-based payments HK$'000	Total HK$'000
For the year ended 31 December 2023						
Executive Directors (note i):						
Mr. LU Ruibo *(Chairman & CEO)*	320	2,969	157	405	–	3,851
Ms. WANG Hui, Ina	320	2,119	255	112	186	2,992
Mr. YU Yuepeng	320	1,420	416	112	186	2,454
Ms. ZHU Liwei	320	1,199	823	84	186	2,612
Mr. WANG Dong	320	1,332	181	111	186	2,130
Independent Non-executive Directors:						
Mr. YU Kwok Kuen Harry	320	–	–	–	–	320
Dr. YEN Gordon	320	–	–	–	–	320
Mr. LEE Siu Ming	320	–	–	–	–	320
	2,560	9,039	1,832	824	744	14,999

Notes:

(i) The executive Directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(ii) The amounts represent discretionary bonuses paid to the Directors to reward their contributions to the Group, based on the performance of the Group.

There was no arrangement under which a director waived or agreed to waive any remuneration for the year ended 31 December 2023, and there was no arrangement under which a shareholder of the Company waived or agreed to waive any dividends for the same period.

FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS AND SENIOR MANAGEMENT'S REMUNERATION

The five individuals with the highest emoluments in the Group include two Directors of the Company. The emoluments of the five highest paid individuals are as follows:

	2023 HK$'000
Directors' fees	640
Salaries and allowances	12,220
Discretionary bonuses	2,327
Share-based payments	530
Retirement benefits schemes contributions	973
Total	16,690

Their emoluments were within the following bands (presented in HK$):

	Number of directors	Number of employees
HK$2,500,001 to HK$3,000,000	1	1
HK$3,500,001 to HK$4,000,000	1	2
	2	3

For the year ended 31 December 2023, no emoluments were paid by the Group to any of the Directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors of the Company has waived any emoluments for the year ended 31 December 2023.

SENIOR MANAGEMENT'S REMUNERATION BY BANDS

The remuneration of the Company's senior management, whose profiles are set out on pages 51 to 56 of this annual report, for the year ended 31 December 2023 were within the following bands:

	Number of senior management
HK$Nil to HK$1,000,000	1
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	3
HK$2,500,001 to HK$3,000,000	1
HK$3,500,001 to HK$4,000,000	2

CORPORATE GOVERNANCE REPORT

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant. All Directors are encouraged to participate in continuous professional trainings at the Company's expenses. All Directors participated in appropriate continuous professional development activities including the Company's in-house update training for Directors for the year ended 31 December 2023, and relevant training records have been maintained by the Company for accurate and comprehensive record keeping. The Company Secretary has confirmed that he has complied with the training requirements that he took no less than 15 hours professional training under Rule 3.29 of the Listing Rules.

DIRECTORS' ATTENDANCE

Details of Directors' attendance at the Board, board committees' meetings and annual general meeting held for the year ended 31 December 2023 are set out in the table below:

Name of Directors	Annual General Meeting	Board[(1)]	Audit Committee	Remuneration Committee	Nomination Committee	Sustainability Committee
	Number of Meetings Attended/Held					
Executive Directors (EDs)						
Mr. LU Ruibo	1/1	4/4		1/1	1/1*	
Ms. WANG Hui, Ina	1/1	4/4				
Mr. YU Yuepeng	1/1	4/4				1/1
Ms. ZHU Liwei	1/1	4/4				1/1
Mr. WANG Dong	1/1	4/4				1/1
Independent Non-executive Directors (INEDs)						
Mr. YU Kwok Kuen Harry	1/1	4/4	3/3*	1/1		
Dr. YEN Gordon	1/1	4/4	3/3		1/1	1/1*
Mr. LEE Siu Ming	1/1	4/4	3/3	1/1*	1/1	1/1
Approximate average duration per meeting (hour)	0.5	1.0	1.0	0.5	0.5	0.5

*: representing chairman of the Board or relevant board committees.

Note:

(1) The above figures exclude resolutions in writing signed by all Directors, and meetings between the Chairman and INEDs without the presence of EDs.

EXTERNAL AUDITOR

The Group's independent external auditor is KPMG. The external auditor is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements.

The Audit Committee reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process. It receives a report from the external auditor confirming its independence and objectivity and holds meetings with representatives of the external auditor to consider the scope of its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

For the year ended 31 December 2023, the total fee paid/payable in respect of services provided by KPMG were HK$7.3 million (2022: HK$7.9 million), comprising fees for audit services of HK$5.8 million (2022: HK$6.3 million) and for non-audit services (tax compliance) of HK$1.5 million (2022: HK$1.6 million).

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to present a balanced, clear and understandable assessment in the consolidated financial statements of the annual and interim reports, other price sensitive announcements and other financial disclosures required under the Listing Rules, and to report to the regulators as well as to disclose information required pursuant to statutory requirements. The statement of the external auditor about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report. The Group has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgements and estimates. When the directors become aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, such uncertainties would be set out and discussed in detail in this Corporate Governance Report.

The statement of the independent auditor of the Company about its reporting responsibilities and opinion on the consolidated financial statements of the Group for the year ended 31 December 2023 is set out in the Independent Auditor's Report on pages 73 to 80 of this annual report.

INTERNAL CONTROL AND ENTERPRISE RISK MANAGEMENT

The Board is responsible for ensuring that a sound and effective system of internal control and enterprise risk management is maintained within the Group, and for reviewing its design and operational adequacy and effectiveness through the Audit Committee.

The internal control and enterprise risk management system, which includes a defined management structure with specified limits of authority and control responsibilities, is designed to (a) help the achievement of business objectives and safeguard the Group's assets; (b) ensure proper maintenance of accounting records and reliability of financial reporting; (c) ensure compliance with relevant legislation and regulations; and (d) identify, manage and mitigate key risks to the Group.

The internal control and enterprise risk management system is established to ensure reasonable, but not absolute assurance against material misstatement or loss and to manage, but not to eliminate risks of failure in achieving the Group's objectives.

Following a risk-based approach, the Group's Internal Audit Department independently reviews and tests the controls over various operations and activities and evaluates their adequacy, effectiveness and compliance. Audit findings and recommendations are reported to the Audit Committee and senior management. In addition, progress on audit recommendations implementation is followed up on a regular basis and discussed with the Audit Committee.

During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's Internal Audit Department, accounting and financial reporting function and their training programs and budgets.

To supplement the above, under the Company's code of conduct, employees can report any ethical misconduct, impropriety or fraud cases within the Group to the Internal Audit Department in writing anonymously without the fear of recrimination.

Based on the results of evaluations and representations made by the management, the Group's Internal Audit Department and the external auditor, the Audit Committee is satisfied that:

- There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; and

- An appropriate, effective and adequate system of internal control and enterprise risk management has been in place throughout the year ended 31 December 2023, and up to the date of approval of the Annual Report.

SHAREHOLDERS' RIGHTS

The Group aims to establish fair and transparent procedures to enable all shareholders an equal opportunity to exercise their rights in an informed manner and communicate efficiently with the Group. Under the Articles of Association and the relevant policies and procedures of the Group, the shareholders have, among others, the following rights:

Convene an Extraordinary General Meeting

According to the article 58 of the Article of Association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward Proposals at a General Meeting

The procedures for shareholders to put forward proposals at an AGM or EGM include a written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the Company's headquarters at Unit 803, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The detailed procedures vary according to whether the proposal constitutes an ordinary resolution or a special resolution, or whether the proposal relates to the election of a person other than a Director of the Company as a director. The procedures for shareholders to convene and put forward proposals at an AGM or EGM (including election of a person other than a Director of the Company as a director) are available on the Company's website or on request to the Company Secretary.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

Pursuant to the code provision F.2.2 as set out in the CG Code, the Company has invited representatives of the external auditor of the Company to attend the AGM of the Company to be convened on 20 May 2024 to answer shareholders' questions relating to the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The Board recognises the importance of communication with its shareholders and investors. The Company has established an Investor Relations Department to communicate with research analysts, institutional investors and shareholders in an on-going and timely manner, providing them necessary information, data and services to understand the Company's operations, strategies and development. The Company also issues press releases from time to time and responds to requests for information and queries from the investment community. Current information about the Company including the annual report, announcements, circulars and press releases can be downloaded from the Company's website (www.improprecision.com). Enquiries may be put to the Board by either contacting the Investor Relations Department through email at ir@impro.com.hk or raising questions at AGM. As there are various means of communication between shareholders and the Company as prescribed above, the Board considers there is existing effective shareholders' communication between shareholders and the Company during the year ended 31 December 2023.

CONSTITUTIONAL DOCUMENT

The Company's Articles of Association, as amended and restated as of 15 June 2018 with effect from the Listing Date were further amended at the annual general meeting of the Group on 2 May 2022 with effect from the same day. A copy of the Articles of Association is available on the websites of the Company and the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set forth in Appendix C3 to the Listing Rules as the code of conduct for securities transactions by the Directors. The Company has made specific enquiry with the Directors and all Directors have confirmed that they complied with the Model Code during the year ended 31 December 2023.

DIRECTORS AND SENIOR MANAGEMENT

OUR EXECUTIVE DIRECTORS

Mr. LU Ruibo (陸瑞博), previously known as LU Jianqiu (陸建秋), aged 60, is an executive Director, the Chairman of our Board and our Chief Executive Officer. Mr. LU has over 39 years' experience in mechanical engineering and industrial engineering. Mr. LU is the founder of our Group. With his extensive experience in manufacturing industry, Mr. LU is responsible for formulating our overall business development strategies and overseeing our Group's overall operations. Prior to founding our Group in September 1998, Mr. LU worked at Jiangyin Bearing Factory (江陰市軸承廠), which then specialized in the manufacturing of bearing products, from May 1992 to July 1998, and Jiangyin Micro-Bearing Factory (江陰市微型軸承廠), which then specialized in the manufacturing of micro-bearing products, from September 1988 to May 1992, where he was respectively responsible for overseeing the production process. During the period between August 1984 and September 1988, Mr. LU served as a technician at Wuxi Textile Machinery Special Parts Plant (無錫紡織機械專件廠) (previously known as Wuxi Textile Machinery Research Institute (無錫紡織機械研究所), an entity in China engaged in the production of machine parts for textile, and thereby accumulated practical experience in managing the production process in manufacturing businesses.

Accumulated working experience equipped Mr. LU with the necessary management skills and industry experience in managing manufacturing businesses in China and overseas.

Mr. LU obtained a bachelor's degree in engineering, majoring in mechanical manufacturing processes and equipment, from Northeastern Heavy Machinery Institute (東北重型機械學院) (currently known as Yanshan University 燕山大學), the PRC, in July 1984. Mr. LU is the spouse of Ms. Wang Hui, Ina. Over the past three years, Mr. LU has not acted as a director in other listed companies.

Ms. WANG Hui, Ina (王輝), aged 53, is an executive Director and our Group's Vice President. Ms. WANG is in-charge of our Group's marketing, contract management and legal affairs. Ms. WANG has been the president of Impro Industries USA from September 2010 to July 2021. Ms. WANG has been the president of Impro Aerotek USA since June 2021. Ms. WANG joined Impro Industries USA in March 1999 and set up and managed our Group's sales offices in the United States and Europe. Ms. WANG has been our Group's Vice President since June 2008. Ms. WANG has over 20 years' experience in international trade, sales and marketing and overseas operational management activities. This previous working experience equipped Ms. WANG with the required practical skills and business connections for facilitating overseas marketing activities.

Ms. WANG obtained a bachelor's degree in Chinese literature and linguistics from East China Normal University (華東師範大學), the PRC, in July 1992. Ms. WANG obtained a master's degree of business administration (MBA) from the University of Phoenix, the United States, in April 2017 and a master of science regulatory trade compliance (MSc) from Dunlap-Stone University, the United States in December 2019. Ms. WANG is the spouse of Mr. LU. Over the past three years, Ms. WANG has not acted as a director in other listed companies.

DIRECTORS AND SENIOR MANAGEMENT

Mr. YU Yuepeng (余躍鵬), aged 53, is an executive Director and our Group's Vice President leading the operations and sales support for Plant 5, the investment casting plant and sand casting plant in Mexico. Mr. YU joined us in September 1998 and has worked as the director and chief manager of Impro Aerotek, the deputy chief manager of Impro China, the assistant manager and the assistant to chief manager of Impro-Bees Hydraulics. Mr. YU is currently president of Impro China and vice president of Impro Industries Mexico.

Mr. YU obtained a bachelor's degree in agricultural mechanics from Nanjing Agricultural University (南京農業大學), the PRC, in July 1994. Over the past three years, Mr. YU has not acted as a director in other listed companies.

Ms. ZHU Liwei (朱力微), aged 55, is an executive Director and our Group's Vice President leading the operations of Plant 3, Plant 4 and Plant 8 in the China region and the Impro Aerotek Business Unit. Ms. ZHU has more than 30 years' experience in the industrial engineering industry. Ms. ZHU joined Wuxi Viking, the predecessor of Impro China, in July 1995 and from September 1998 to September 2006, Ms. ZHU was its general manager responsible for its daily operations. Ms. ZHU was our Vice President from September 2006 to December 2017, responsible for the purchasing department of the China region and the operations of our Plant 2, Plant 3 and Plant 4. Ms. ZHU has been in charge of the aerospace and medical business of our Group since January 2014. Ms. ZHU is currently the president of Impro Aerotek.

Ms. ZHU obtained a bachelor's degree in engineering economics and a master's degree in industrial engineering from Shanghai Jiao Tong University (上海交通大學), the PRC, in July 1991 and March 2005, respectively. In November 2006, Ms. ZHU was awarded the title of "Senior Economist" (高級經濟師) by the Jiangsu Province Personnel Affairs Bureau (江蘇省人事廳), a provincial government authority responsible for employment and personnel matters, and awarded the title of "Chief Economist" (正高級經濟師) on 11 December 2019, recognizing her expertise and experience in management, economy employment and personnel matters. Over the past three years, Ms. ZHU has not acted as a director in other listed companies.

Mr. WANG Dong (王東), aged 48, is our executive Director and is responsible for the operations and sales support of Plant 2. Mr. WANG has more than 20 years' experience in manufacturing of high-precision machining components and parts. Mr. WANG joined us in October 2001 and worked as the manager for production and logistics of Wuxi Impro-Bees Machinery Co., Ltd (now trading as Impro-Bees Hydraulics); the deputy general manager of Impro China; the deputy general manager of Impro Aerotek; the executive deputy general manager of Impro Yixing; the director of Impross Impeller and the executive director and general manager of Impro Taizhou. Before joining us, Mr. WANG served as a technician and an engineer at Wuxi Weifu Group Co., Ltd. (無錫威孚集團公司), a company engaged in the development, manufacturing and supply of components and parts for trucks, passenger cars, and construction machines, from July 1998 to July 2000, where he was responsible for product development.

Mr. WANG obtained a bachelor's degree in mechanical and electronic engineering from Xi'an University of Technology (西安理工大學), the PRC, in July 1998. Over the past three years, Mr. WANG has not acted as a director in other listed companies.

DIRECTORS AND SENIOR MANAGEMENT

OUR INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YU Kwok Kuen Harry (余國權), aged 54, was appointed as our independent non-executive Director on 1 April 2019. Mr. YU also serves as the chairman of the Audit Committee and a member of the Remuneration Committee. Mr. YU is experienced in the finance and accounting field. Mr. YU worked at KPMG, an international accounting firm, from October 1991 to June 2011, during which he became a partner in July 2002. Mr. YU is an independent non-executive director of China Risun Group Limited (a company listed on the Stock Exchange, stock code: 1907) since September 2018.

Mr. YU obtained a diploma in accountancy from the Morrison Hill Technical Institute, Hong Kong and a master's degree in business administration through long distance learning awarded by Manchester Business School. Mr. YU is a fellow of the Institute of Chartered Accountants in England and Wales, a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. YU is also a registered Certified Public Accountant in the Macau Special Administrative Region.

Dr. YEN Gordon (嚴震銘), aged 54, was appointed as our independent non-executive Director on 1 April 2019. Dr. YEN also serves as the chairman of the Sustainability Committee and a member of the Audit Committee and the Nomination Committee. Dr. YEN is currently the founding managing partner of Radiant Tech Ventures Limited, an innovation and technology venture capital firm, and is registered as a responsible officer under the SFO for Type 9 (asset management) regulated activity. Dr. YEN has over 25 years of management and operational experience in private and listed companies in investment, global supply chain, manufacturing and infrastructure industries. Dr. YEN was an independent non-executive director of Hopewell Holdings Limited (a company then listed on the Stock Exchange, former stock code: 54) from May 2012 to May 2019. Dr. YEN has also been the non-executive vice chairman and a non-executive director of Fountain Set (Holdings) Limited (a company listed on the Stock Exchange, stock code: 420) since 28 August 2018 and May 2013, respectively. He has also been the independent non-executive director of Asia Allied Infrastructure Holdings Limited (a company listed on the Stock Exchange, stock code: 711) since September 2021.

Dr. YEN obtained a bachelor's degree of science in manufacturing engineering from Boston University, the United States, in May 1990; a master of business administration from McGill University, Canada, in June 1992, and a doctor's degree of business administration from The Hong Kong Polytechnic University in December 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LEE Siu Ming (李小明), aged 48, was appointed as our independent non-executive Director on 1 April 2019. Mr. LEE also serves as the chairman of the Remuneration Committee, a member of each of the Audit Committee, the Nomination Committee and the Sustainability Committee. Mr. LEE has been the managing director and head of corporate coverage in Hong Kong of Natixis since June 2022. Mr. LEE was the chief strategy officer and head of capital markets/corporate finance of VPower Group International Holdings Limited (a company listed on the Stock Exchange, stock code: 1608) between April 2017 and May 2022. Mr. LEE has over 20 years of experience in investment banking and asset management, and worked at a number of investment banking institutions in Hong Kong such as BOCI Asia Limited, Morgan Stanley Asia Limited, Deutsche Bank AG, Hong Kong Branch, and BNP Paribas Peregrine Capital Limited from 1999 to 2016, where he participated in leading corporate finance and capital markets transactions.

Mr. LEE obtained a master's degree of business administration and a bachelor's degree of business administration from University of Wisconsin — Madison, the United States, in December 1997 and May 1997, respectively. In addition, Mr. LEE has obtained the Chartered Financial Analyst certification from the CFA Institute since May 2001.

OUR SENIOR MANAGEMENT

Mr. IP Wui Wing Dennis (葉匯榮), aged 47, was appointed as our Group's Chief Financial Officer in December 2016 and Company Secretary in December 2017. Mr. IP is responsible for overseeing the finance, compliance, investor relations and company secretarial matters. Mr. IP also currently serves as a director of Impro Industries Mexico and Cengiz Makina. Prior to joining us, Mr. IP was the chief financial officer and executive director of Braiform Holdings Limited, which is a leading garment hangers and packing solutions provider, from November 2013 to December 2016. Before that, Mr. IP worked in several multinational companies and an international audit firm (Arthur Andersen & Co.), where he developed extensive experience in leading finance accounting, mergers and acquisitions, treasury, internal control, investor relations and corporate governance functions.

Mr. IP graduated from The Chinese University of Hong Kong, in December 1998 with a bachelor's degree in business administration. In November 2006, Mr. IP obtained a master's degree in business administration from The Hong Kong University of Science and Technology, Hong Kong. Mr. IP has been certified as a certified public accountant (CPA) by the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants (HKICPA)) since September 2001 and has been a fellow of HKICPA since March 2018. Mr. IP has obtained the Chartered Financial Analyst Certification from the CFA Institute since October 2003 and obtained the Certified Environmental, Social and Governance Analyst (CESGA®) certification from the European Federation of Financial Analysts Societies (EFFAS) in January 2022.

DIRECTORS AND SENIOR MANAGEMENT

Mr. SUN Xiaohao (孫嘯昊), aged 47, was appointed as our Group's Vice President on January 2018 responsible for managing the Strategy, M&A and Integration of the Group, the information technology Center of the Group as well as the administration of the finance division in the China region. Moreover, Mr. SUN is also fully responsible for the formation of the Fluidtek business, the global strategy development and the global operations of the Group. Mr. SUN currently serves as the executive director of Impro Fluidtek, and the executive director and president of Cengiz Makina. Mr. SUN was the founding member and director of Cobalt Equity Partners since March 2017. From May 2005 to February 2017, Mr. SUN worked at General Electric ("**GE**"), at which, his last positions were director of GE private equity & business development and strategic partnership and marketing director of GE Capital China, and was responsible for equity investment in industrial sections, and managing business strategy and capital markets' business for joint ventures. From 1998 to 2005, Mr. SUN worked at a number of industrial and consumer goods manufacturers, primarily engaged in marketing, strategy and product management activities.

Mr. SUN obtained a master's degree of business administration from China Europe International Business School (CEIBS) (中歐國際工商學院), in April 2004, and a bachelor's degree of engineering, major in metal materials and heat treatment, from Shanghai Jiao Tong University (上海交通大學), the PRC, in July 1998. In addition, he obtained the certification as a GE Black Belt in Six Sigma from GE, in December 2006.

Mr. ZHUANG Xulei (莊緒雷), aged 49, is our Group's Vice President, the managing director and chief engineer of Plant 3, the executive director and general manager of Plant 4, and the executive director and general manager of Foshan Ameriforge. Mr. ZHUANG has over 20 years' experience in the industrial engineering industry. Mr. ZHUANG joined Wuxi Viking, the predecessor of Impro China, in September 1998. Since September 1998, he has held various positions in Impro China, including manager of investment casting products department, manager of automobile parts products department, deputy chief engineer and chief engineer of Impro China and Impro Aerotek.

Mr. ZHUANG obtained a bachelor's degree in mechanical design and manufacturing from Taiyuan Heavy Machinery Institute (太原重型機械學院) (currently known as Taiyuan University of Science and Technology (太原科技大學)), the PRC, in July 1998. In November 2005, he received Six Sigma Black Belt Certification from Caterpillar Inc.. Mr. ZHUANG was certified as an engineer by Wuxi City Human Resources and Social Security Department (無錫市人力資源和社會保障局) in September 2011 and a senior engineer by the Jiangsu Human Resources and Social Security Department (江蘇省人力資源和社會保障廳) in November 2017.

Mr. CHENG Daoguang (程道廣), aged 59, is the executive director and joint general manager of Impro Aerotek (Nantong) (鷹航南通). Mr. CHENG is responsible for implementing the business development, production and operations, and sales of the Impro Aerotek (Nantong) Plant and has 44 years of experience in the industrial engineering industry. Mr. CHENG joined Wuxi Viking (the predecessor company of Impro China) in September 1998. Since September 1998, he has held various positions in Impro China, including the chief engineer of Wuxi Viking, the general manager of Impro-Bees Machinery, the general manager of Impro Aerotek and the general manager of Impro-Bees Plating & Painting. Prior to joining Impro, he was the technical manager of Tianjin Bearing General Factory from 1988 to 1997.

Mr. CHENG obtained his bachelor's degree of engineering from Luoyang Engineering College (洛陽工學院) (currently known as Henan University of Science and Technology (河南科技大學)) in July 1988 and was awarded the title of Senior Engineer.

DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG Haozhan (王好戰), aged 44, is our Group's Vice President managing Plant 1, Plant 6, Plant 7, Plant 9, Impro USA, Impro Europe, Impro Germany, sales and customer service center in the China region, as well as the international logistics and data management division. Mr. WANG currently also serves as the director of Impro Yixing and Impro Taizhou, the president of Impro Impeller and the director of Impro Industries Mexico. Prior to joining us in November 2019, Mr. WANG worked at 3M, a multinational manufacturing corporation, at which his last position was the director of Sales Excellence & Strategic Key Account Management of 3M China Industrial Business Group between February 2006 to November 2019. From April 2003 to February 2006, Mr. WANG worked in Shanghai Volkswagen Ltd, a leading automotive manufacturer, as engineer and manager assistant of department for Prototype Car Development and Road Testing in R&D Center, and responsible for sales and marketing planning, and dealership management.

Mr. WANG obtained a master's degree in automotive mechatronics in April 2003, and a bachelor's degree in engineering, major in thermal engine in July 2000, both from Shanghai JiaoTong University (上海交通大學), the PRC.

Mr. CHEN Kailiang (諶開良), aged 43, the managing director of each of Impro Europe, Impro Aerotek Europe, Impro Fluidtek Europe and Impro Germany, responsible for overall sales, business development and operations. Mr. CHEN also serves as the executive director of BFG-Czech and BFG-F, in charge of their overall business development and operations. Prior to joining us in November 2017, Mr. CHEN was vice president at Gerresheimer AG in Germany, a group principally engaged in the manufacture of specialty glass and plastic products for pharmaceutical and healthcare use, from January 2015 to October 2017, where he was in charge of operations in Europe. Before that, Mr. CHEN worked in several multinational companies in Europe, where he developed extensive experience in leading production, supply chain and business development.

Mr. CHEN obtained a master's degree in electrical engineering and information technology (majoring in mechatronics) from the Technical University of Munich, Germany, in June 2007.

Ms. ZHANG Mingmei (張明媚), aged 47, is our business development director. She has over 20 years' experience in the industrial engineering industry. Prior to joining Impro China in May 2001, Ms. ZHANG worked as a technician at Wuxi Drilling Tools Factory Co., Ltd (無錫鑽探工具廠有限公司), which is a company manufacturing drilling tools, from July 1997 to May 2001.

Ms. ZHANG graduated from Changchun University of Science and Technology (長春科技大學) (now merged into Jilin University (吉林大學)), the PRC, with a bachelor's degree in investigation engineering, in July 1997.

REPORT OF THE DIRECTORS

The Directors present this report together with the audited consolidated financial statements for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are shown in Note 16 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2023 are provided in the Chairman's Statement and Management Discussion and Analysis sections respectively from pages 17 to 24 and pages 25 to 32 of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss on page 81 of this annual report.

The Board declared the first interim dividend of 8.0 HK cents per share, totaling HK$150.9 million which was paid on 6 September 2023.

The Board declared the second interim dividend of 8.0 HK cents per share for the year ended 31 December 2023, with a total amount of approximately HK$151.0 million, which is expected to be paid on Thursday, 11 April 2024.

DIVIDEND POLICY

As disclosed in the Prospectus of the Company dated 28 June 2019, the Board intends to adopt a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 25% of our distributable net profit attributable to our equity shareholders in the future but subject to, among others, our operation needs, earnings, financial condition, working capital requirements and future business expansion plans as our Board may deem relevant at such time.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Monday, 20 May 2024. Notice of the AGM will be sent to its Shareholders in due course. For the purpose of determining Shareholder's eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 14 May 2024 to Monday, 20 May 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 13 May 2024.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years are set out on pages 179 to 180.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2023 are set out in Note 30 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2023 are set out in the consolidated statement of changes in equity and Note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the distributable reserves of the Company available for distribution as dividends amounted to HK$1,821.3 million (2022: HK$1,804.9 million).

DONATIONS

During the year ended 31 December 2023, the Group made donations of HK$0.1 million (2022: HK$0.4 million).

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of the Cayman Islands in relation to issues of new Shares by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the year ended 31 December 2023.

REPORT OF THE DIRECTORS

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2023, the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchase. The Group's largest customer accounted for approximately 11.9% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 39.5% of the Group's revenue during the financial year.

None of the Directors, their close associates or any shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued shares) had any interest in the Group's five largest customers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that employees are one of the significant assets of the Group. The Group aims to continue establishing a caring environment to employees and emphasizes the personal development of its employees. The Group maintains a good relationship with its customers and suppliers. The Group aims to continue providing quality services and consumption experiences to its customers and establishing cooperation strategy with its suppliers.

RETIREMENT BENEFIT SCHEMES

The Group operates a MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The Group also participates in defined contribution retirement schemes organized by the relevant local government authorities in the PRC and other jurisdictions where the Group operates. The Group also operates defined benefit retirement schemes for employees in Germany, Turkey and Mexico. Particulars of the retirement benefit schemes are set out in Note 29 to the consolidated financial statements.

DIRECTORS

During the year ended 31 December 2023 and up to the date of this report, the Directors of the Company were:

Executive Directors

Mr. LU Ruibo *(Chairman and Chief Executive Officer)*
Ms. WANG Hui, Ina
Mr. YU Yuepeng
Ms. ZHU Liwei
Mr. WANG Dong

Independent Non-Executive Directors

Mr. YU Kwok Kuen Harry
Dr. YEN Gordon
Mr. LEE Siu Ming

In accordance with Article 83 and 84 of the Articles of Association, Ms. WANG Hui, Ina, Mr. WANG Dong and Mr. LEE Siu Ming shall hold office until the forthcoming annual general meeting and being eligible, offer themselves for re-election.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

The profiles of the Directors and the senior management are set out in the Directors and Senior Management section on pages 51 to 56.

DIRECTORS' SERVICE AGREEMENTS

Each executive Director and each independent non-executive Director has entered into a service agreement or letter of appointment with the Company for a term of three years. The service agreements and the letters of appointment are subject to termination in accordance with the respective terms. The service agreements and letters of appointment may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

The emoluments of Directors have been determined with reference to the skills, knowledge and involvement in the Company's affairs, the performance of each Director and the Company, and the prevailing market conditions during the year ended 31 December 2023.

Save as disclosed above, none of the Directors has entered, or has proposed to enter, a service agreement with any member of the Group with an unexpired period which is not determinable by the employer within one year without the payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended 31 December 2023.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

MATERIAL RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in Note 32 to the consolidated financial statements.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders and executive Directors (collectively, the "**Covenantors**") has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors has jointly and severally, irrevocably and unconditionally, undertaken with our Company (for itself and for the benefit of its subsidiaries) that with effect from the Listing Date and for so long as our Shares remain so listed on the Hong Kong Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of our Shares in issue or otherwise regarded as controlling shareholders (as defined in the Listing Rules) of our Company, the Covenantors shall not, and shall procure that none of their associates (except any members of our Group) or affiliates shall:

(a) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or be in competition with any member of our Group in any business activities which any member of our Group may undertake in the future save for the holding of not more than five per cent shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; and

(b) take any direct or indirect action which constitutes an interference with or a disruption to the business activities of any member of our Group including, but not limited to, solicitation of the customers, suppliers or personnel of any member of our Group.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, has undertaken to our Group that:

(a) if any new business opportunity relating to any of the products and/or services of the Group (the "**Business Opportunity**") is made available to any of the Covenantors or their respective associates (other than members of the Group), it shall direct or procure the relevant associate to direct such Business Opportunity to us with such required information to enable the Company to evaluate the merits of the Business Opportunity.

(b) in connection with the Business Opportunity, the relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to us to enable us to secure the Business Opportunity.

For the avoidance of doubt, none of the Covenantors and their respective associates (other than members of our Group) shall not pursue the Business Opportunity even though we decide not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company shall have been approved by our independent non-executive Directors.

During the year ended 31 December 2023, the Company had not received any information in writing from any of the Covenantors in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to the knowledge of the Covenantors or their associates (other than any member of the Group). Each of the Covenantors has made an annual declaration to the Company that he/she/it had fully complied with his/her/its obligations under the Deed of Non-competition during the year ended 31 December 2023.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance, to which the Company, its parent company or controlling shareholders or any of their respective subsidiaries was a party and in which a director of the Company or an entity connected with him (within the meaning of section 486 of the Hong Kong Companies Ordinance) had a material interest (whether directly or indirectly), was entered into in the year or subsisted at the end of the year or at any time during the year ended 31 December 2023. During the year ended 31 December 2023, there was no provision of services to the Company or any of its subsidiaries by the controlling shareholder of the Company or any of its subsidiaries, and no contract of significance was entered into.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES AND EQUITY-LINKED AGREEMENTS

Save for the share options with details set out under the section headed "Share Option Scheme" in this annual report, at no time during the year ended 31 December 2023 was the Company, or any of its holding company or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked arrangement.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2023, the interests and short positions of the Directors and chief executive of the Company in the Shares, the underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO, as recorded in the register required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

THE COMPANY AND ASSOCIATED CORPORATION

(i) Long positions in the Shares and underlying Shares of the Company

Name of Directors	Nature of interest/capacity	Number of Shares or underlying Shares	Percentage of the Company's issued share capital(7)
Mr. LU	Interest in a controlled corporation (1)	1,348,118,787	71.43
	Spouse interest (3)	800,000	0.04
	Beneficial owner	9,239,000	0.49
Ms. WANG	Beneficial owner (2)	800,000	0.04
	Spouse interest (3)	1,357,357,787	71.92
Mr. YU Yuepeng	Beneficial owner (4)	500,000	0.03
Ms. ZHU Liwei	Beneficial owner (5)	500,000	0.03
Mr. WANG Dong	Beneficial owner (6)	500,000	0.03

(ii) Interest in associated corporation

Name of Directors	Name of associated corporation	Number of shares	Percentage of shareholding interest
Mr. LU	Impro Development	1	100
Ms. WANG	Impro Development	(Note 3)	(Note 3)

Notes:

(1) All issued shares of Impro Development Limited ("**Impro Development**") are beneficially owned by Mr. LU and Mr. LU is the sole director of Impro Development. Accordingly, Mr. LU is deemed to be interested in the 1,348,118,787 Shares held by Impro Development under the SFO.

(2) Ms. WANG was granted share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares and options representing 500,000 Shares were expired during the year ended 31 December 2022. Options representing 300,000 Shares were exercised and 200,000 Shares were expired respectively during the year ended 31 December 2023.

(3) Ms. WANG is the spouse of Mr. LU and each of them is deemed to be interested in the Shares held by each other by virtue of the SFO. She is neither a director of Impro Development nor holds any interest, beneficial or otherwise, in the issued shares of Impro Development.

(4) Mr. YU Yuepeng was granted share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares and options representing 500,000 Shares were expired during the year ended 31 December 2022. No options have been exercised and options representing 500,000 Shares were expired during the year ended 31 December 2023.

(5) Ms. ZHU Liwei was granted share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares and options representing 500,000 Shares were expired during the year ended 31 December 2022. No options have been exercised and options representing 500,000 Shares were expired during the year ended 31 December 2023.

(6) Mr. WANG Dong was granted share options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares and options representing 500,000 Shares were expired during the year ended 31 December 2022. Options representing 29,000 Shares were exercised and subsequently disposed of, and 471,000 Shares were expired respectively during the year ended 31 December 2023.

(7) The percentages were calculated based on the total number of 1,887,285,665 issued Shares as at 31 December 2023.

Save as disclosed above, as at 31 December 2023, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed under the SFO to have any interests or short positions in any of the Shares or the underlying Shares and debentures of the Company and associated corporations (within the meaning of Part XV of the SFO) which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2023, the interests and short positions of the persons, other than Directors and chief executive of the Company, (except for Mr. LU and his controlled entity) in the Shares and the underlying Shares of the Company, as notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

Name of substantial shareholders	Nature of interest/capacity	Number of Shares held	Percentage of the Company's issued share capital[(3)]
Impro Development	Beneficial owner	1,348,118,787	71.43
Mr. LU	Interest in controlled corporation and beneficial owner	1,357,357,787	71.92
	Spouse interest	800,000	0.04
GT Cedar Capital (Hong Kong) Limited ("**GT Cedar**") [(1)]	Beneficial owner	104,205,123	5.52
Genertec Investment Management Co. Ltd. [(2)]	Interest in a controlled corporation	104,205,123	5.52
Genertec Capital Company Limited [(2)]	Interest in a controlled corporation	104,205,123	5.52
China General Technology (Group) Holding Company Limited [(2)]	Interest in a controlled corporation	104,205,123	5.52

Notes:

(1) GT Cedar is owned as to 80% by Genertec Investment Management Co. Ltd. and 20% by Genertec Hong Kong International Capital Limited.

(2) GT Cedar is owned as to 80% by Genertec Investment Management Co., Ltd. Genertec Investment Management Co. Ltd. is owned as to 99.7% by Genertec Capital Company Limited, a wholly-owned subsidiary of China General Technology (Group) Holding Company Limited. Under the SFO, Genertec Investment Management Co. Ltd., Genertec Capital Company Limited and China General Technology (Group) Holding Company Limited are deemed to be interested in the Shares held by GT Cedar.

(3) The percentages were calculated based on the total number of 1,887,285,665 issued Shares as at 31 December 2023.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2023, the Directors are not aware of any persons other than the Directors or chief executive of the Company, who had any interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

On 15 June 2018, the Company adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, pursuant to which the Company may grant options to eligible participants to subscribe for the Shares subject to the terms and conditions stipulated therein.

As at 31 December 2023, the Company has granted share options to certain eligible participants pursuant to the Pre-IPO Share Option Scheme and there is no option granted under the Post-IPO Share Option Scheme since its adoption.

PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme is intended to provide employees of our Group with an opportunity to enjoy our success and incentives to their future performance. The principal terms of the Pre-IPO Share Option Scheme are similar to the terms of the Post-IPO Share Option Scheme except for the following:

(a) the subscription price per Share shall represent 20% discount to the Offer Price; and

(b) save for the options which have been granted, no further options would be offered or granted, as the right to do so was ended upon the Listing Date.

The table below sets forth the movement of share options granted to Directors and other grantees under the Pre-IPO Share Option Scheme during the year ended 31 December 2023:

				Number of options (1)				
Grantees	Date of grant	Exercise price per option	Exercise period	Outstanding as of 1 January 2023	Granted during the year	Exercised during the year	Expired or forfeited during the year	Outstanding as of 31 December 2023
Directors								
Ms. WANG Hui, Ina	28/6/2019 (2)	HK$2.4	29/06/2023-25/12/2024	1,000,000	–	(300,000)	(200,000)	500,000
Mr. YU Yuepeng	28/6/2019 (2)	HK$2.4	29/06/2023-25/12/2024	1,000,000	–	–	(500,000)	500,000
Ms. ZHU Liwei	28/6/2019 (2)	HK$2.4	29/06/2023-25/12/2024	1,000,000	–	–	(500,000)	500,000
Mr. WANG Dong	28/6/2019 (2)	HK$2.4	29/06/2023-25/12/2024	1,000,000	–	(29,000)	(471,000)	500,000
Other employees	28/6/2019 (2)	HK$2.4	29/06/2023-25/12/2024	11,724,644	–	(2,397,165)	(4,145,973)	5,181,506
				15,724,644	–	(2,726,165)	(5,816,973)	7,181,506

Notes:

(1) Number of options refers to the number of underlying Shares of the Company covered by the options under the Pre-IPO Share Option Scheme.

(2) These options shall vest in 3 equal tranches. The three tranches are exercisable during a period of 180 days immediately after the third, fourth and fifth anniversary of the Listing Date (both days inclusive).

(3) Since the Company's Shares were listed on 28 June 2019, the closing price of the Company's Shares immediately before the date on which the share options were granted was not applicable.

(4) Share options to subscribe for 1,338,632 Shares forfeited and 4,478,341 Shares expired during the year ended 31 December 2023 following the cessation of employment of certain grantees and expiry of the second vesting period, respectively.

The total number of Shares of the Company that could be issued upon the exercise of all outstanding share options as at the date of this report are 7,135,677, which represents approximately 0.4% of the issued share capital of the Company as at the date of this report.

Save as disclosed above, no share options were granted, exercised, expired, forfeited or cancelled under the Pre-IPO Share Option Scheme for the year ended 31 December 2023.

POST-IPO SHARE OPTION SCHEME

The following is a summary of principal terms of the Post-IPO Share Option Scheme conditionally adopted by our Shareholders on 15 June 2018. The terms of the Post-IPO Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

The purpose of the Post-IPO Share Option Scheme is to enable our Company to grant Options (as defined below) to Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to our Group and to provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives: (a) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; (b) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group; and/or (c) for such purposes as our Board may approve from time to time.

Eligible Participants shall be: (i) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (the "**Executive**"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (the "**Employee**"); (ii) a director or proposed director (including an independent non-executive director) of any member of our Group; (iii) a direct or indirect shareholder of any member of our Group; (iv) a supplier of goods or services to any member of our Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (vi) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and (vii) an associate of any of the persons referred to in paragraphs (i) to (iii) above.

REPORT OF THE DIRECTORS

The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of our Shares in issue as of the Listing Date, i.e. 183,330,000 Shares, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the "**Scheme Mandate Limit**") provided that: (i) Our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and any other schemes of our Company shall not exceed 10% of our Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Post-IPO Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, expired, forfeited or exercised in accordance with the terms of the Post-IPO Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules. (ii) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules. (iii) The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Shares in issue from time to time. No Options may be granted under the Post-IPO Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of the Shares of the Company in issue from time to time.

Subject to the terms of the Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme.

The amount payable on acceptance of an option is HK$1.00. The subscription price of a Share in respect of any particular option shall be such price as our Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (i) the nominal value of a Share; (ii) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (iii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days (as defined in the Listing Rules) immediately preceding the date of grant.

REPORT OF THE DIRECTORS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix C2 to the Listing Rules is published simultaneously with this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as of the date of this report, there is sufficient public float of more than 25% of the Company's issued Shares as required under the Listing Rules.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on pages 37 to 50.

AUDITOR

KPMG shall retire and be eligible to offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There was no change to the auditor of the Company during the preceding three years.

By order of the Board

Mr. LU Ruibo
Chairman and Chief Executive
Hong Kong, 12 March 2024

GLOSSARY

"Annual General Meeting" or "AGM"	the annual general meeting of the Company
"Articles of Association"	the amended and restated articles of association of the Company as adopted by a special resolution passed on 5 May 2022
"BFG-Czech"	BFG Czech s.r.o., a limited liability company incorporated in the Czech Republic on 19 September 2007 and an indirect wholly-owned subsidiary of our Company
"BFG-F"	BFG Feinguss GmbH (formerly known as BFG Feinguss Niederrhein GmbH), a limited liability company *(Gesellschaft mit beschränkter Haftung)* organized under German law on 18 September 2001 and registered with the commercial register of the local court at Kleve, Germany under HRB 6028, and an indirect wholly-owned subsidiary of our Company
"Board"	our board of Directors
"Cengiz Makina"	Cengiz Makina Sanayi ve Ticaret Anonim Sirketi, a limited liability company incorporated in Turkey on 27 January 1995 and converted into a joint stock company on 30 November 2004 and an indirect wholly-owned subsidiary of our Company
"Chairman"	the chairman of the Board
"Company", or "We", or "our", or "us"	Impro Precision Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability on 8 January 2008, the Shares of which are listed on the Main Board of the Stock Exchange
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company
"Euro" or "EUR"	the lawful currency of the member states of the European Union
"Executive Directors" or "EDs"	executive directors of the Company (unless the context requires otherwise)
"Foshan Ameriforge"	Foshan Ameriforge Manufacturing Technology Co., Ltd. (佛山市美鍛製造技術有限公司), a wholly foreign-owned enterprise incorporated in China on 2 November 2004 which became an indirect wholly-owned subsidiary of our Company upon completion of the acquisition by the Group on 15 August 2022

GLOSSARY

"FTZJ+"	the hydraulic orbital motor business acquired by the Group from Danfoss Power Solutions (Jiangsu) Co., Ltd. (丹佛斯動力系統(江蘇)有限公司), a wholly foreign-owned enterprise established in the PRC in April 2005. FTZJ+ has become an integrated business of the Group since the completion of the acquisition of its hydraulic orbital motor business on 31 October 2022
"Group" or "Impro Group"	the Company and its subsidiaries
"HK$" or "HKD"	Hong Kong dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Impro Aerospace Mexico"	Impro Aerospace Mexico, S. de R.L. de C.V., a company incorporated in Mexico on 17 February 2017 and an indirect wholly-owned subsidiary of our Company
"Impro Aerotek" or "Plant 3"	Impro Aerotek Limited (鷹普航空科技有限公司), renamed from Impro Aerospace Components (Wuxi) Co., Ltd. (鷹普航空零部件(無錫)有限公司) with effect from 5 November 2020, a wholly foreign-owned enterprise established in China on 9 August 2002 and an indirect wholly-owned subsidiary of our Company
"Impro Aerotek Europe"	Impro Aerotek Europe SARL, a company incorporated in Luxembourg on 30 July 2021 and an indirect wholly-owned subsidiary of our Company
"Impro Aerotek USA"	Impro Aerotek USA, Inc., a corporation incorporated under the laws of the State of California, the United States, with the articles of incorporation filed on 17 June 2021 and an indirect wholly-owned subsidiary of our Company
"Impro Aerotek (Nantong)"	Impro Aerotek (Nantong) Limited (鷹普航空科技 (南通) 有限公司) renamed from Nantong Shenhai Science and Industrial Technology Co., Ltd. (南通申海工業科技有限公司) with effect from 16 May 2023, a limited liability company established in China on 12 October 2001, which is an indirect wholly-owned subsidiary of our Company
"Impro-Bees Hydraulics" or "Plant 2"	Wuxi Impro-Bees Precision Hydraulics Co.,Ltd (無錫鷹貝精密液壓有限公司), renamed from Wuxi Impro-Bees Precision Bearing Co., Ltd. (無錫鷹貝精密軸承有限公司) with effect from 14 October 2020, a wholly foreign-owned enterprise established in China on 15 June 2006 and an indirect wholly-owned subsidiary of our Company

GLOSSARY

"Impro-Bees Plating & Painting" or "Plant 4"	Wuxi Impro-Bees Plating and Painting Co., Ltd. (無錫鷹貝電化學工程有限公司), a wholly foreign-owned enterprise established in China on 31 August 2004 and an indirect wholly-owned subsidiary of our Company
"Impro China" or "Plant 1 and Plant 5"	Impro (China) Limited (鷹普(中國)有限公司), a wholly foreign-owned enterprise established in China on 12 May 1995 and an indirect wholly-owned subsidiary of our Company
"Impro Europe"	Impro Europe SARL, a company incorporated in Luxembourg on 29 May 2012 and an indirect wholly-owned subsidiary of our Company
"Impro Fluidtek"	Impro Fluidtek Limited (鷹普流體科技有限公司), a wholly foreign-owned enterprise established in China on 27 November 2020 and an indirectly wholly-owned subsidiary of our Company
"Impro Germany"	Impro Germany GmbH, a limited liability company incorporated in Germany on 2 May 2003 and an indirect wholly-owned subsidiary of our Company
"Impro Industries Mexico"	Impro Industries Mexico, S. de R.L. de C.V., a company incorporated in Mexico on 18 March 2016 and an indirect wholly-owned subsidiary of our Company
"Impro Industries USA"	Impro Industries USA, Inc., a corporation incorporated under the laws of the State of California, the United States, with the articles of incorporation filed on 25 November 1998 and an indirect wholly-owned subsidiary of our Company
"Impro Taizhou" or "Plant 7"	Impro Industrial (Taizhou) Co., Ltd. (鷹普機械(泰州)有限公司), a wholly foreign-owned enterprise incorporated in China on 30 June 2006 and an indirect wholly-owned subsidiary of our Company
"Impro Yixing" or "Plant 6"	Impro Industries (Yixing) Co., Ltd. (鷹普機械(宜興)有限公司), a wholly foreign-owned enterprise incorporated in China on 19 April 2006 and an indirect wholly-owned subsidiary of our Company
"Impross Impeller" or "Plant 9"	Impross Impeller (Yixing) Co., Ltd. (鷹普羅斯葉輪(宜興)有限公司), a sino-foreign equity joint venture limited liability company established in China on 12 February 2011 and an indirect non-wholly owned subsidiary of our Company, which is owned as to 67.0% by Impro Yixing and 33.0% by Ross Casting which is an Independent Third Party
"Independent Non-executive Directors" or "INEDs"	independent non-executive Directors of the Company (unless the context requires otherwise)

GLOSSARY

"Listing Date"	28 June 2019
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mexico"	United Mexican States
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Companies
"Mr. LU"	Mr. LU Ruibo
"Ms. WANG"	Ms. WANG Hui Ina, the spouse of Mr. Lu
"MXN"	Mexican Peso
"Plant 8"	the surface treatment business of Impro Aerotek (Nantong)
"Nantong Plant 12"	newly established plant of Impro Aerotek (Nantong) and will be integrated with Foshan Ameriforge to focus on aerospace and energy components business
"PRC" or "China"	the People's Republic of China
"Principles"	the principles of good corporate governance (unless the context requires otherwise)
"RMB"	the Renminbi
"Share(s)"	ordinary share(s) with a nominal value of HK$0.1 each in the share capital of our Company
"Shareholder(s)"	the holder(s) of share(s) of HK$0.1 each in the issued capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TL"	Turkish Lira, the lawful currency of Turkey
"Turkey"	the Republic of Turkey
"United States" or "USA" or "U.S."	the United States of America
"US$" or "USD"	US Dollars

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF IMPRO PRECISION INDUSTRIES LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Impro Precision Industries Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 81 to 178, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("**the Code**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Assessing potential goodwill impairment	
Refer to Note 14 to the consolidated financial statements and the accounting policies on page 100.	
The Key Audit Matter	**How the matter was addressed in our audit**
As at 31 December 2023, the carrying amount of goodwill, which arose from acquisition of the hydraulic orbital motor business in 2022, was HK$228 million, representing 3% of the Group's total assets. Management performed annual impairment assessment of the cash generating unit ("**CGU**") to which goodwill is allocated by comparing the carrying value of the CGU with its recoverable amount. The recoverable amount is estimated by using a discounted cash flow forecast prepared by an external valuer. The preparation of discounted cash flow forecast involves the exercise of significant management judgment, in particular in determining the revenue growth rate, operating profit margin and discount rate.	Our audit procedures to assess the potential impairment of goodwill included the following: • obtaining an understanding of and assessing the design and implementation of management's internal control over the process of goodwill impairment assessment; • assessing management's identification of the CGU and the allocation of assets and liabilities to the identified CGU with reference to the requirements of the prevailing accounting standards; • assessing the competence, capabilities and objectivity of the external valuer engaged by management; • performing a retrospective review by comparing the prior year's cash flow forecast with the actual performance of the businesses for the current year to assess whether the judgement made by management in the preparation of the cash flow forecast indicated possible management bias;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF IMPRO PRECISION INDUSTRIES LIMITED (continued)

(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (Continued)

Assessing potential goodwill impairment	
Refer to Note 14 to the consolidated financial statements and the accounting policies on page 100.	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified the assessment of potential impairment of goodwill as a key audit matter because the assessment is inherently subjective and requires management judgement which increases the risk of error and the potential for management bias.	• evaluating the reasonableness of the key assumptions adopted in the preparation of the discounted cash flow forecast, including revenue growth rate and operating profit margin, by comparing with the relevant historical data and market data, where available; • involving our internal valuation specialists to assist us in assessing reasonableness of the discount rate applied in the cash flow forecast by benchmarking against those of comparable companies; • performing sensitivity analysis of key assumptions, including revenue growth rates, operating profit margins and discount rates, and considering the resulting impact on the impairment assessment and whether there were any indications of management bias; and • considering the reasonableness of the disclosures in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (Continued)

Expected credit loss allowances for trade receivables	
Refer to Note 19 to the consolidated financial statements and the accounting policies on pages 97 to 99.	
The Key Audit Matter	**How the matter was addressed in our audit**
As at 31 December 2023, the Group had trade receivables with a total gross carrying amount of HK$1,026 million, net of loss allowances for expected credit losses ("**ECLs**") of HK$21 million. Management measures the loss allowance at an amount equal to lifetime expected credit losses for the trade receivables. The estimated loss allowances take into account the ageing of trade receivable balances, the repayment history of the Group's customers and etc. We identified the ECL allowance for trade receivables as a key audit matter because of the significance of the balance to the consolidated financial statements and the assessment of the ECL allowance is inherently subjective and requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance; • evaluating the Group's policy and method for estimating the ECL allowance with reference to IFRS 9; • assessing the accuracy and reliability of the key parameters used for the estimated ECL rates by examining, on a sample basis, the historical collection data and whether trade receivables were correctly categorized in the trade receivables ageing report by comparing individual items therein with sales invoices and other relevant underlying documentation; and • re-performing the calculation of the ECL allowance as at 31 December 2023 based on the Group's credit loss allowance policies and method.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF IMPRO PRECISION INDUSTRIES LIMITED (continued)

(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (Continued)

Valuation of Inventory	
Refer to Note 18 to the consolidated financial statements and the accounting policies on page 101.	
The Key Audit Matter	**How the matter was addressed in our audit**
At 31 December 2023, the Group's gross inventories totalled HK$1,073 million, against which provisions for inventories of HK$112 million were recorded. The Group's inventories are valued at the lower of cost and net realizable value. The net realizable value is determined by management on an individual item basis by taking into account the estimated selling prices of the Group's products, the estimated costs of completion of work-in-progress at the reporting date and the estimated costs necessary to make the sale. A significant proportion of the Group's finished good inventory items are manufactured to meet specific customer requirements. The Group may from time to time manufacture goods based on anticipated customer orders. There is a risk that these inventory items cannot be sold and are stated at more than their net realizable values if there is a demand issue with a customer's product that includes a component manufactured by the Group. We identified the valuation of inventories as a key audit matter because of its significance to the Group's total assets, and because determining the net realizable value involves significant management judgement and estimation, which can be inherently subjective and increase the risk of error or potential management bias.	Our audit procedures to assess the valuation of inventory included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls over making provisions for inventories; • performing a retrospective review of the historical accuracy of these estimates, discussing any significant variances with management and considering the impact of these variances on the current year's assumptions and estimates; • evaluating whether items were correctly categorized in the finished goods inventory ageing report by comparing with production records, on a sample basis; • evaluating the Group's inventory provision policy by assessing management's prediction of net realisable value of the inventories with reference to selling price subsequent to year end, sales order received, or historical selling price of current and prior years; • comparing inventory level of finished good items at year end date, on a sample basis, with order backlogs and procurement plans indicated by customers in order to assess the residual risk of the inventory's realizability; and • recalculating the Group's inventory provision with reference to recent sales prices achieved near or after the year end date.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF IMPRO PRECISION INDUSTRIES LIMITED (continued)

(Incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Ting Yuen.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

12 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023
(Expressed in Hong Kong dollars)

	Note	2023 HK$'000	2022 HK$'000
Revenue	4	**4,604,378**	4,354,711
Cost of sales		**(3,426,047)**	(3,093,757)
Gross profit		**1,178,331**	1,260,954
Other revenue	5(a)	**30,166**	23,895
Other net income/(loss)	5(b)	**19,972**	(24,579)
Selling and distribution expenses		**(158,456)**	(180,687)
Administrative and other operating expenses		**(341,764)**	(334,694)
Profit from operations		**728,249**	744,889
Net finance costs	6(a)	**(108,377)**	(55,884)
Profit before taxation	6	**619,872**	689,005
Income tax	7	**(33,109)**	(106,225)
Profit for the year		**586,763**	582,780
Attributable to:			
Equity shareholders of the Company		**585,093**	581,945
Non-controlling interest		**1,670**	835
Profit for the year		**586,763**	582,780
Earnings per share	11		
Basic (HK cents)		**31.0**	30.9
Diluted (HK cents)		**31.0**	30.9

The notes on pages 88 to 178 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 30(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023
(Expressed in Hong Kong dollars)

	Note	**2023** **HK$'000**	2022 HK$'000
Profit for the year		**586,763**	582,780
Other comprehensive income for the year (after tax adjustments)	10		
Items that will not be reclassified to profit or loss:			
Effect of remeasurement of defined benefit plan obligations (net of tax of HK$2,059,000 (2022: HK$1,141,000))	29(a)	**(8,584)**	(10,050)
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of entities with functional currencies other than Hong Kong Dollars ("HK$")		**218,491**	(270,819)
Other comprehensive income for the year		**209,907**	(280,869)
Total comprehensive income for the year		**796,670**	301,911
Attributable to:			
Equity shareholders of the Company		**795,077**	302,678
Non-controlling interest		**1,593**	(767)
Total comprehensive income for the year		**796,670**	301,911

The notes on pages 88 to 178 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023
(Expressed in Hong Kong dollars)

	Note	2023 HK$'000	2022 HK$'000
Non-current assets			
Property, plant and equipment	12	**4,535,542**	4,050,192
Prepayments for purchase of property, plant and equipment		**52,401**	46,836
Intangible assets	13	**214,812**	248,394
Goodwill	14	**227,522**	230,821
Deferred expenses	15	**161,071**	163,268
Other financial asset	17	**1,554**	1,576
Deferred tax assets	27(b)	**121,256**	69,255
		5,314,158	4,810,342
Current assets			
Inventories	18	**961,195**	1,152,071
Trade and bills receivables	19	**1,081,373**	1,091,216
Prepayments, deposits and other receivables	20	**302,866**	219,175
Taxation recoverable	27(a)	**10,429**	6,854
Cash and cash equivalents	21(a)	**630,850**	483,286
		2,986,713	2,952,602
Current liabilities			
Bank loans	22	**1,028,594**	942,407
Lease liabilities	23	**7,659**	14,368
Trade payables	24	**519,542**	457,784
Other payables and accruals	25	**308,871**	303,089
Taxation payable	27(a)	**59,601**	94,482
		1,924,267	1,812,130
Net current assets		**1,062,446**	1,140,472
Total assets less current liabilities		**6,376,604**	5,950,814

The notes on pages 88 to 178 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023
(Expressed in Hong Kong dollars)

	Note	2023 HK$'000	2022 HK$'000
Non-current liabilities			
Bank loans	22	**1,211,909**	1,244,237
Lease liabilities	23	**9,649**	4,895
Deferred income	28	**135,126**	129,430
Defined benefit plan obligations	29(a)	**64,268**	67,329
Deferred tax liabilities	27(b)	**54,696**	106,926
		1,475,648	1,552,817
NET ASSETS		**4,900,956**	4,397,997
CAPITAL AND RESERVES			
Share capital	30(c)	**188,729**	188,456
Reserves		**4,691,894**	4,190,801
Total equity attributable to equity shareholders of the Company		**4,880,623**	4,379,257
Non-controlling interest		**20,333**	18,740
TOTAL EQUITY		**4,900,956**	4,397,997

Approved and authorized for issue by the board of directors on 12 March 2024.

Lu Ruibo	)	
	)	Directors
Wang Hui, Ina	)	

The notes on pages 88 to 178 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Exchange reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
Balance at 1 January 2022		188,330	1,430,278	19,144	241,084	34,287	(571)	2,443,497	4,356,049	23,332	4,379,381
Changes in equity for 2022:											
Profit for the year		–	–	–	–	–	–	581,945	581,945	835	582,780
Other comprehensive income	10	–	–	–	–	(269,217)	–	(10,050)	(279,267)	(1,602)	(280,869)
Total comprehensive income		–	–	–	–	(269,217)	–	571,895	302,678	(767)	301,911
Appropriation of dividends	30(b)	–	–	–	–	–	–	(286,261)	(286,261)	–	(286,261)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(3,825)	(3,825)
Exercise of share options	30(c)(ii)	126	4,178	(1,270)	–	–	–	–	3,034	–	3,034
Expiry of share options	26(b)	–	–	(6,634)	–	–	–	6,634	–	–	–
Appropriation of reserve	30(d)(iii)	–	–	–	18,995	–	–	(18,995)	–	–	–
Equity settled share-based transactions	26	–	–	3,757	–	–	–	–	3,757	–	3,757
Balance at 31 December 2022		188,456	1,434,456	14,997	260,079	(234,930)	(571)	2,716,770	4,379,257	18,740	4,397,997

The notes on pages 88 to 178 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023
(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory surplus reserve HK$'000	Exchange reserve HK$'000	Fair value reserve (non-recycling) HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
Balance at 1 January 2023		188,456	1,434,456	14,997	260,079	(234,930)	(571)	2,716,770	4,379,257	18,740	4,397,997
Changes in equity for 2023											
Profit for the year		–	–	–	–	–	–	585,093	585,093	1,670	586,763
Other comprehensive income	10	–	–	–	–	218,568	–	(8,584)	209,984	(77)	209,907
Total comprehensive income		–	–	–	–	218,568	–	576,509	795,077	1,593	796,670
Appropriation of dividends	30(b)	–	–	–	–	–	–	(301,685)	(301,685)	–	(301,685)
Exercise of share options	30(c)(ii)	273	9,308	(3,038)	–	–	–	–	6,543	–	6,543
Expiry of share options	26(b)	–	–	(5,004)	–	-	–	5,004	–	–	–
Appropriation of reserve	30(d)(iii)	–	–	–	27,144	–	–	(27,144)	–	–	–
Equity settled share-based transactions	26	–	–	1,431	–	–	–	–	1,431	–	1,431
Balance at 31 December 2023		188,729	1,443,764	8,386	287,223	(16,362)	(571)	2,969,454	4,880,623	20,333	4,900,956

The notes on pages 88 to 178 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2023
(Expressed in Hong Kong dollars)

	Note	2023 HK$'000	2022 HK$'000
Operating activities			
Cash generated from operations	21(b)	**1,454,536**	940,520
Tax paid		**(173,117)**	(103,025)
Net cash generated from operating activities		**1,281,419**	837,495
Investing activities			
Payment for the acquisition of property, plant and equipment		**(711,380)**	(634,864)
Proceeds from disposal of property, plant and equipment		**6,602**	38,039
Acquisition of businesses, net of cash acquired	21(e)	**–**	(545,024)
Payment for deferred expenses		**(75,992)**	(76,094)
Interest received		**7,879**	4,413
Net cash used in investing activities		**(772,891)**	(1,213,530)
Financing activities			
Proceeds from bank loans	21(c)	**1,295,027**	1,626,548
Repayment of bank loans	21(c)	**(1,228,330)**	(950,661)
Interest paid	21(c)	**(115,550)**	(59,618)
Capital element of lease rentals paid	21(c)	**(14,986)**	(8,704)
Interest element of lease rentals paid	21(c)	**(706)**	(679)
Proceeds from exercise of share options	30(c)(ii)	**6,543**	3,034
Dividends paid to equity shareholders of the Company	30(b)	**(301,685)**	(286,261)
Dividends paid to non-controlling interest		**–**	(3,825)
Net cash (used in)/generated from financing activities		**(359,687)**	319,834
Net increase/(decrease) in cash and cash equivalents		**148,841**	(56,201)
Cash and cash equivalents at 1 January		**483,286**	578,964
Effect of foreign exchange rate changes		**(1,277)**	(39,477)
Cash and cash equivalents at 31 December	21(a)	**630,850**	483,286

The notes on pages 88 to 178 form part of these financial statements.

1 GENERAL INFORMATION

Impro Precision Industries Limited (the "Company") was incorporated in Cayman Islands on 8 January 2008 as an exempted company with limited liability under the Companies Act, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 28 June 2019. The Company and its subsidiaries (collectively as the "Group") are principally engaged in the development and production of a broad range of casting products and precision machining parts and provision of surface treatment services.

2 MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (the "IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Material accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements of the Group for the year ended 31 December 2023 comprise the Company and its subsidiaries.

Items included in these consolidated financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The functional currency of the Company is HK$. The consolidated financial statements are presented in HK$, rounded to nearest thousands, which is the presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are set out in Note 3.

(c) Changes in accounting policies

The IASB has issued the following new and amended IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Definition of Accounting Estimates*
- Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*
- Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to IAS 12, *International Tax Reform — Pillar Two Model Rules*

In July 2023, the HKICPA published "Accounting implications of the abolition of the Mandatory Provident Fund (MPF) — Long Service Payment ("LSP") offsetting mechanism in Hong Kong" that provides guidance on the accounting considerations relating to the abolition of the mechanism arrangement for employers using the accrued benefits derived from mandatory MPF contributions to offset severance payment and LSP (see note 29(b)).

None of these developments had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interest

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

For each business combination, the Group can elect to measure any non-controlling interest ("NCI") either at fair value or at the NCI's proportionate share of the subsidiary's net identifiable assets.

NCI are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. NCI in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between NCI and the equity shareholders of the Company. Loans from holders of NCI and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(o) or (p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control of a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)(ii)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

2 MATERIAL ACCOUNTING POLICIES (Continued)

(e) Goodwill

Goodwill arising on acquisition of businesses is measured at cost less accumulated impairment losses and is tested annually for impairment (see Note 2(k)(ii)).

(f) Other investments in securities

The Group's policies for investments in securities, other than investments in subsidiaries, are set out below.

Investments in securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 33(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Non-equity investments

Non-equity investments are classified into one of the following measurement categories:

— amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Expected credit losses, interest income calculated using the effective interest method (see Note 2(w)(iii)), foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

— fair value through other comprehensive income ("FVOCI") — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses are recognized in profit or loss and computed in the same manner as if the financial asset was measured at amortized cost. The difference between the fair value and the amortized cost is recognized in other comprehensive income ("OCI"). When the investment is derecognized, the amount accumulated in OCI is recycled from equity to profit or loss.

— FVPL if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(f) Other investments in securities (Continued)

(ii) Equity investments

An investment in equity securities is classified as FVPL, unless the investment is not held for trading purposes and on initial recognition the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in OCI. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. If such election is made for a particular investment, at the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings and not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income (see Note 2(w)(v)).

(g) Property, plant and equipment

Property, plant and equipment are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value). Freehold land held for own use are not depreciated. Items of property, plant and equipment other than freehold land are stated at cost which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses (see Note 2(k)(ii)).

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components).

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 MATERIAL ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

The estimated useful lives for the current and comparative periods are as follows:

	Estimated useful life
Freehold land	not depreciated
Leasehold land	over the period of leases
Properties held for own use	20–50 years
Machinery	3–15 years
Furniture, fixtures and equipment	4–10 years
Motor vehicles	4–10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Construction in progress represents properties under construction and machinery pending installation and is stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less impairment losses (see Note 2(k)(ii)). Cost comprises the purchase costs of the asset and the related construction and installation costs.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation policies specified above.

No depreciation is provided in respect of construction in progress.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired through business combination and have finite useful lives are measured at cost (the acquisition date fair value) less accumulated amortization and any accumulated impairment losses (see Note 2(k)(ii)).

Amortization of intangible assets is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, if any, and is generally recognized in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

	Estimated useful life
Customer relationships	3–15 years
Patents and know-how	8–10 years

The useful lives of customer relationships are estimated based on the historical length of business relationship and turnover rate of customers of the acquirees. The useful lives of patents and know-how are estimated based on the remaining valid period of the patents and the period of economic benefits to be derived from the products to be produced relying on the know-how.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(i) Deferred expenses

Deferred expenses represent direct costs attributable to specific product development projects developed for respective customers over a period of time, from which future economic benefits are expected to flow to the Group when the relevant products are sold to the customers during their product life cycle. The expense capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Deferred expenses are stated at cost less accumulated amortization any impairment losses (see Note 2(k)(ii)).

Amortization of deferred expenses is charged to profit or loss on a straight-line basis over their estimated useful lives of five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 MATERIAL ACCOUNTING POLICIES (Continued)

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for leases that have a short lease term of 12 months or less, and leases of low-value items such as laptops and office furniture. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalize the lease on a lease-by-lease basis. If not capitalized, the associated lease payments are recognized in profit or loss on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is recognized using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability, and are charged to profit or loss as incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(k)(ii)).

Refundable rental deposits are accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in non-equity securities carried at amortized cost (see Notes 2(f)(i), 2(w)(iii) and 2(k)(i)). Any excess of the nominal value over the initial fair value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(j) Leased assets (Continued)

(i) ***As a lessee*** (Continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(ii) ***As a lessor***

The Group determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. Otherwise, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with Note 2(w)(ii).

2 MATERIAL ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognizes a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortized cost (including cash and cash equivalents and trade and other receivables) and non-equity securities measured at FVOCI (recycling) (see Note 2(f)(i)).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

The expected cash shortfalls are discounted using the following rates if the effect is material:

— fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and

— lifetime ECLs: these are the ECLs that result from all possible default events over the expected lives of the items to which the ECL model applies.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) ***Credit losses from financial instruments*** (Continued)

Measurement of ECLs (Continued)

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

— financial instruments that are determined to have low credit risk at the reporting date; and

— other financial instruments for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

— the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or

— the financial asset is 90 days past due.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in non-equity securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in OCI and accumulated in the fair value reserve (recycling) does not reduce the carrying amount of the financial asset in the statement of financial position.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or being more than 90 days past due;

— the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

— it is probable that the debtor will enter bankruptcy or other financial reorganization; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group otherwise determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than property carried at revalued amounts, investment property, inventories and other contract costs, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGU"s). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i)).

Impairment losses recognized in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(l) Inventories

Inventories are measured at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of work in progress, costs include direct labor and appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Contract liabilities

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see Note 2(w)(i)). A contract liability is also recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such latter cases, a corresponding receivable is also recognized (see Note 2(n)).

(n) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortized cost (see Note 2(k)(i)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequently, these borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with Note 2(v).

(p) Trade and other payables

Trade and other payables are initially recognized at fair value. Subsequent to initial recognition, trade and other payables are stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL (see Note 2(k)(i)).

(r) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

(ii) Defined benefit plan obligations

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense on the defined benefit liability are recognized in profit or loss and allocated by function as part of "cost of sales" or "administrative and other operating expenses". Current service cost is measured as the increase in the present value of the defined benefit plan obligations resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognized as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognized. Net interest expense for the period is determined by applying the discount rate used to measure the defined benefit plan obligations at the beginning of each reporting period to the defined benefit liability. The discount rate is the yield at the end of each reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit plan obligations are recognized immediately in OCI.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 MATERIAL ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

(iii) Share-based payments

The grant-date fair value of equity-settled share-based payments granted to employees is measured using the binomial lattice model. The amount is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service conditions at the vesting date.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring.

(s) Income tax

Income tax expense comprises current tax and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

— temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;

— temporary differences related to investment in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;

— taxable temporary differences arising on the initial recognition of goodwill; and

— those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

The Group recognized deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(t) Provisions and contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under that contract and an allocation of other costs directly related to fulfilling that contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract (see Note 2(k)(ii)).

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognized for any expected reimbursement that would be virtually certain. The amount recognized for the reimbursement is limited to the carrying amount of the provision.

(u) Translation of foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(u) Translation of foreign currencies (Continued)

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into HK$ at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into HK$ at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in OCI and accumulated in the exchange reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the NCI shall be derecognized, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI.

(v) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from contracts with customers

The Group is the principal for its revenue transactions and recognizes revenue on a gross basis. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Revenue is recognized when control over a product is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(w) Revenue and other income (Continued)

(i) Revenue from contracts with customers (Continued)

Revenue is recognized when the customer takes possession of and accepts the products. Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers, but the Group generally provides credit terms to customers within 120 days upon customer acceptance. The Group takes advantage of the practical expedient in paragraph 63 of IFRS15 and does not adjust the consideration for any effects of a significant financing component as the period of financing is 12 months or less.

If the products are a partial fulfilment of a contract covering other goods, then the amount of revenue recognized is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis. Generally, the Group establishes standalone selling prices with reference to the observable prices of products or services sold separately in comparable circumstances to similar customers.

(ii) Rental income from operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(iii) Interest income

Interest income is recognized using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(iv) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

Grants that compensate the Group for the cost of an asset are recognized as deferred income and subsequently recognized in profit or loss on a systematic basis over the useful life of the asset.

(v) Dividends

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 MATERIAL ACCOUNTING POLICIES (Continued)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Sources of estimation uncertainty

Notes 14 and 29(a) contains information about the assumptions and their risk factors relating to goodwill and defined benefit plan obligations. Other significant sources of estimation uncertainty are as follows:

(i) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value. The Group reassesses these estimates annually.

(ii) Impairment of trade receivables

The Group estimates the amount of loss allowance for ECLs on trade receivables that are measured at amortized cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

(iii) Estimated amortization of deferred expenses

Deferred expenses are amortized on a straight-line basis over the estimated useful lives of five years. The Group reviews the estimated useful lives of the deferred expenses regularly in order to determine the amount to be charged to the profit or loss during any reporting period. The useful lives are based on the Group's historical experience with the estimated average life of the projects and taking into account of the anticipated technological changes. The amortization charge for future periods is adjusted if there are significant changes from previous estimates.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group is principally engaged in the development and production of a broad range of casting products and precision machining parts.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Investment casting	**1,914,827**	1,899,549
Precision machining and others	**1,808,252**	1,486,023
Sand casting	**823,873**	815,638
Surface treatment	**57,426**	153,501
	4,604,378	4,354,711

The Group's revenue from contracts with customers were recognized at point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

The Group's customer base is diversified and includes two customers with whom transactions have exceeded 10% of the Group's revenues. In 2023, revenues from sales of investment casting, precision machining and others and sand casting products to these two customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately HK$1,020,428,000 (2022: HK$1,002,635,000) and arose in all three geographical regions. Details of concentrations of credit risk are set out in Note 33(a).

(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121(a) of IFRS 15 to its sales contracts for goods such that information about revenue expected to be recognized in the future is not disclosed in respect of revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an expected duration of one year or less.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

The Group manages its businesses by divisions, which are organized by business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Investment casting: It is a metal forming process that casts molten metal into a ceramic mold produced by surrounding a wax pattern. The main products are automotive, diversified industrials, aerospace and medical components.

- Precision machining and others: It uses a computerized power-driven machine tool to drill or shape metal parts with high precision specifications. The main products are automotive, construction equipment and aerospace components, and hydraulic orbital motors.

- Sand casting: It is a metal forming process in which a mold is first formed from a three-dimensional pattern of sand and molten metal is poured into the mould cavity for solidification. The main products are high horsepower engine and construction equipment components.

- Surface treatment: It primarily contains surface treatment services including plating, anodizing, painting and coating and is mainly used in automotive and aerospace end-markets.

(i) Segment results and assets

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of other financial asset, deferred tax assets, cash and cash equivalents and other corporate assets.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses or which otherwise arise from the depreciation or amortization of assets attributable to those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of technical know-how, is not measured.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results and assets (Continued)

The measure used for reporting segment profit is adjusted earnings before interest, taxes, depreciation and amortization. To arrive at the reporting segment profit, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs. In addition, the management evaluates the performance of the Group based on the earnings before interest, taxes, depreciation and amortization.

In addition to receiving segment information concerning reporting segment profit, management is provided with segment information concerning revenue (including inter-segment sales) generated by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2023 and 2022 is set out below:

	Year ended 31 December 2023				
	Investment casting HK$'000	Precision machining and others HK$'000	Sand casting HK$'000	Surface treatment HK$'000	Total HK$'000
Revenue from external customers	1,914,827	1,808,252	823,873	57,426	4,604,378
Inter-segment revenue	–	–	–	27,618	27,618
Reportable segment revenue	1,914,827	1,808,252	823,873	85,044	4,631,996
Gross profit /(loss) from external customers	629,966	375,812	177,708	(5,155)	1,178,331
Inter-segment gross profit	–	–	–	12,498	12,498
Reportable segment gross profit	629,966	375,812	177,708	7,343	1,190,829
Depreciation and amortization	160,650	205,858	109,214	20,892	496,614
Reportable segment profit	614,247	385,041	198,225	19,645	1,217,158
Reportable segment assets	2,876,300	2,627,755	1,697,622	346,945	7,548,622

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) ***Segment results and assets*** (Continued)

	Year ended 31 December 2022				
	Investment casting HK$'000	Precision machining and others HK$'000	Sand casting HK$'000	Surface treatment HK$'000	Total HK$'000
Revenue from external customers	1,899,549	1,486,023	815,638	153,501	4,354,711
Inter-segment revenue	–	–	–	28,592	28,592
Reportable segment revenue	1,899,549	1,486,023	815,638	182,093	4,383,303
Gross profit from external customers	640,752	358,008	222,198	39,996	1,260,954
Inter-segment gross profit	–	–	–	8,653	8,653
Reportable segment gross profit	640,752	358,008	222,198	48,649	1,269,607
Depreciation and amortization	155,912	169,914	61,926	32,863	420,615
Reportable segment profit	597,767	349,692	190,358	63,578	1,201,395
Reportable segment assets	2,475,570	3,055,511	1,371,609	313,060	7,215,750

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenues, gross profit, profit or loss and assets

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Revenue		
Reportable segment revenue	**4,631,996**	4,383,303
Elimination of inter-segment revenue	**(27,618)**	(28,592)
Consolidated revenue	**4,604,378**	4,354,711
Gross profit		
Reportable segment gross profit	**1,190,829**	1,269,607
Elimination of inter-segment gross profit	**(12,498)**	(8,653)
Consolidated gross profit	**1,178,331**	1,260,954
Profit		
Reportable segment profit	**1,217,158**	1,201,395
Elimination of inter-segment profit	**(12,498)**	(8,653)
Reportable segment profit derived from the Group's external customers	**1,204,660**	1,192,742
Other revenue	**30,166**	23,895
Other net income/(loss)	**19,972**	(24,579)
Unallocated head office and corporate expenses	**(29,935)**	(26,554)
Consolidated profit before interest, taxes, depreciation and amortization	**1,224,863**	1,165,504
Net finance costs	**(108,377)**	(55,884)
Depreciation and amortization	**(496,614)**	(420,615)
Consolidated profit before taxation	**619,872**	689,005

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenues, gross profit, profit or loss and assets (Continued)

	As at 31 December	
	2023	2022
	HK$'000	HK$'000
Assets		
Reportable segment assets	**7,548,622**	7,215,750
Elimination of inter-segment receivables	**(9,188)**	(13,916)
	7,539,434	7,201,834
Other financial asset	**1,554**	1,576
Deferred tax assets	**121,256**	69,255
Cash and cash equivalents	**630,850**	483,286
Unallocated head office and corporate assets	**7,777**	6,993
Consolidated total assets	**8,300,871**	7,762,944

(iii) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, prepayments for purchase of property, plant and equipment, intangible assets, goodwill, deferred expenses and other financial asset ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, i.e. the location of the operation to which they are allocated.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Geographical information (Continued)

Revenue from external customers

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Americas		
— United States of America ("United States")	**2,019,018**	1,957,676
— Others	**214,232**	165,271
Europe	**1,502,702**	1,358,353
Asia		
— The People's Republic of China ("PRC")	**736,633**	753,327
— Others	**131,793**	120,084
	4,604,378	4,354,711

Specified non-current assets

	As at 31 December	
	2023	2022
	HK$'000	HK$'000
United States	**8,144**	7,776
Europe	**485,794**	505,561
The PRC	**2,912,711**	2,846,543
Mexico	**1,786,253**	1,381,207
	5,192,902	4,741,087

5 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Rental income	**833**	596
Government grants (Note)	**24,446**	19,369
Others	**4,887**	3,930
	30,166	23,895

Note:

During the year ended 31 December 2023, the Group received unconditional government subsidies of HK$14,535,000 (2022: HK$11,651,000) as encouragement of their contribution in technology development, environment protection and contribution in local economy.

During the year ended 31 December 2023, the Group received conditional government subsidies of HK$17,500,000 (2022: HK$8,322,000) as subsidies for acquisition of property, plant, equipment and leasehold land. During the year ended 31 December 2023, the Group recognized such subsidies of HK$9,911,000 (2022: HK$7,718,000) for acquisition of property, plant, equipment and leasehold land and investment incentive in the profit or loss when related conditions were satisfied.

(b) Other net income/(loss)

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Net exchange gain	**7,386**	43,435
Net (loss)/gain on disposal of property, plant and equipment	**(8,030)**	17,466
Severance costs	**(7,199)**	–
Loss on a fire incident	**–**	(93,697)
Insurance claims (Note)	**17,145**	13,340
Others	**10,670**	(5,123)
	19,972	(24,579)

Note:

Impro Aerotek (Nantong) Limited (formerly known as "Nantong Shenhai Science and Industrial Technology Co., Ltd.") received partial insurance claims of RMB15,449,000 (2022: RMB11,500,000) (equivalent to approximately HK$17,145,000 (2022: HK$13,340,000)) during the year ended 31 December 2023 in respect of loss on the fire accident in June 2022.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Interest income	**(7,879)**	(4,413)
Interest expenses on bank loans	**115,550**	59,618
Interest expenses on lease liabilities	**706**	679
	116,256	60,297
Net finance costs	**108,377**	55,884

(b) Staff costs

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Salaries, wages and other benefits	**1,076,049**	1,027,276
Contributions to defined contribution retirement plans	**82,160**	80,544
Expenses recognized in respect of defined benefit plan obligations (Note 29(a))	**7,403**	3,689
Equity settled share-based payment expenses (Note 26)	**1,431**	3,757
	1,167,043	1,115,266

6 PROFIT BEFORE TAXATION (Continued)

(c) Other items

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Cost of inventories recognized as expenses*	**3,426,047**	3,093,757
Depreciation charges		
— owned property, plant and equipment	**373,817**	302,158
— right-of-use assets	**16,045**	25,905
Amortization of intangible assets	**30,898**	16,394
Amortization of deferred expenses	**75,854**	76,158
Research and development expenses	**149,286**	135,059
Provision of impairment loss on trade receivables	**4,071**	7,901
Provision for write-down of inventories	**24,816**	8,123
Auditors' remuneration		
— Audit services	**5,765**	6,334
— Non-audit services	**1,556**	1,567

* Cost of inventories recognized as expenses includes amounts relating to staff costs, depreciation and amortization expenses, research and development expenses, provision for write-down of inventories, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Income tax in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Current tax		
Chinese Mainland Corporate Income Tax		
Provision for the year	**57,280**	40,122
Bonus deduction of research and development	**(27,254)**	(20,322)
Over provision in respect of prior years	**(1,309)**	(679)
	28,717	19,121
Hong Kong Profits Tax		
Provision for the year	**34,583**	61,817
Under provision in respect of prior years	**188**	650
	34,771	62,467
Tax jurisdictions outside Chinese Mainland and Hong Kong		
Provision for the year	**54,953**	52,511
	118,441	134,099
Deferred tax		
Origination and reversal of temporary differences (Note 27(b))	**(85,332)**	(27,874)
Total income tax expense	**33,109**	106,225

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) Pursuant to the income tax rules and regulations of Hong Kong, the Group's subsidiaries in Hong Kong were liable to the Hong Kong Profits Tax at a rate of 16.5% during the years ended 31 December 2023 and 2022. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(a) Income tax in the consolidated statement of profit or loss represents: (Continued)

Notes: (Continued)

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax ("CIT") at statutory rate of 25%, except for the following specified subsidiaries:

According to the Administrative Measures for Determination of high-tech Enterprises (Guokefahuo [2016] No.32), Impro (China) Limited obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2020 to 2022. Impro (China) Limited renewed the qualification in 2023 and was entitled to a preferential income tax of 15% from 2023 to 2025.

Wuxi Impro-Bees Precision Hydraulics Co., Ltd. and Impro Aerotek Limited obtained the qualification as a high-tech enterprise in 2021 and was entitled to a preferential income tax of 15% from 2021 to 2023.

Impro Industries (Yixing) Co., Ltd. obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2022 to 2024.

Impro Aerotek (Nantong) Limited obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2022 to 2024.

Impross Impeller (Yixing) Co., Ltd. obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2021 to 2023.

Impro Industrial (Taizhou) Co., Ltd. obtained the qualification as a high-tech enterprise in 2022 and was entitled to a preferential income tax rate of 15% for the years from 2022 to 2024.

Foshan Ameriforge Manufacturing Technology Co., Ltd. obtained the qualification as a high-tech enterprise in 2020 and was entitled to a preferential income tax rate of 15% for the years from 2020 to 2022. Foshan Ameriforge Manufacturing Technology Co., Ltd. renewed the qualification in 2023 and was entitled to a preferential income tax of 15% from 2023 to 2025.

According to the prevailing PRC CIT law and its relevant regulations, non-PRC tax resident enterprises are levied withholding tax on interests and dividends from their PRC resident investees for intra-group interest borrowings and earnings accumulated beginning on 1 January 2008, at 7% and 10% (unless reduced by tax treaties or similar arrangements), respectively.

Under the arrangement between the Chinese Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a reduced rate of 5% (if the Hong Kong investor is the "beneficial owner" and owns directly at least 25% of the equity interest of the PRC resident enterprise for the past twelve months before the dividends distribution). The Group's investments in the PRC subsidiaries meet those requirements for a preferential rate of 5%.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(a) Income tax in the consolidated statement of profit or loss represents: (Continued)

Notes: (Continued)

(iv) Pursuant to the income tax rules and regulations of the United States, the Group's subsidiaries in the United States were liable to United States federal income tax at a rate of 21% and state income tax at a rate ranging from 4.90% to 9.50% during the year ended 31 December 2023 and 2022.

(v) Pursuant to the income tax rules and regulations of Germany, BFG Feinguss GmbH was liable to the German Corporate Income Tax at a rate of 30% during the year ended 31 December 2023 and 2022. Impro Germany GmbH was liable to the German Corporate Tax at a rate of 31.2% and 32.6% for the years ended 31 December 2023 and 2022, respectively.

(vi) Pursuant to the income tax rules and regulations of Luxembourg, the Group's subsidiaries in Luxembourg were liable to the Luxembourg Corporate Income Tax at a rate of 24.9% during the years ended 31 December 2023 and 2022, comprising federal income tax at a flat rate of 17% and local municipal business tax at a rate of 7.9% during the years ended 31 December 2023 and 2022.

(vii) Pursuant to the income tax rules and regulations of Czech, the Group's subsidiary in Czech was liable to the Czech Corporate Income Tax at a rate of 19% during the years ended 31 December 2023 and 2022.

(viii) Pursuant to the income tax rules and regulations of Turkey, the Group's subsidiary in Turkey, Cengiz Makina Sanayi ve Ticaret Anonim Sirketi ("Cengiz Makina") was liable to the Turkey Corporate Income Tax at a rate of 25% and 23% for the years ended 31 December 2023 and 2022, respectively.

According to the prevailing Turkey Corporate Income Tax Law and its relevant regulations, non-Turkey tax resident enterprises are levied withholding tax on dividends from their Turkey resident investees for 15% of earnings accumulated (unless reduced by tax treaties or similar arrangements).

Under the Arrangement between the Grand Duchy of Luxembourg and the Republic of Turkey for the Avoidance of Double Taxation and the Preventing of Fiscal Evasion with respect to Taxes on Income and on Capital and its relevant regulations, dividends paid by a Turkey resident enterprise to its direct holding company in Luxembourg will be subject to withholding tax at a reduced rate of 10% (if the Luxembourg investor is a company and owns directly at least 25% of the equity interest of the Turkey resident). The Group's investments in the Turkey subsidiary meet those requirements for a preferential rate of 10%.

(ix) Pursuant to the income tax rules and regulations of Mexico, the Group's subsidiaries in Mexico, Impro Industries Mexico, S. de R.L. de C.V. and Impro Aerospace Mexico, S. de R.L. de C.V. were liable to the Mexico Corporate Income Tax at a rate of 30% during the years ended 31 December 2023 and 2022.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(b) Reconciliation between tax expense and profit before taxation at applicable tax rates:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Profit before taxation	**619,872**	689,005
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**153,500**	138,636
Tax effect of non-deductible expenses	**4,003**	6,822
Tax effect of non-taxable income	**(10,771)**	(5,172)
Tax effect of tax losses not recognized	**14,223**	4,047
Tax effect of previously unrecognized tax losses now recognized	**(2,435)**	(4,325)
Tax effect of change in tax rates	**12,019**	–
Tax effect of temporary differences arising from inflation in Mexico	**(12,316)**	(8,595)
Tax effect of new tax law enacted in Turkey (Note)	**(89,813)**	–
Tax effect of temporary differences arising from differentiated functional and tax filing currency	**2,615**	7,082
Provision of withholding tax on undistributed profits	**16,781**	9,277
Effect of PRC tax concessions obtained	**(26,322)**	(21,196)
PRC bonus deduction of research and development expense	**(27,254)**	(20,322)
Over-provision in respect of prior years	**(1,121)**	(29)
Actual tax expense	**33,109**	106,225

Note:

In December 2023, the Turkey's Ministry of Finance issued the Article 555 to Turkish Tax Procedure Code, pursuant to which the Turkish statutory financial statements for the year ended 31 December 2023 would be subject to inflation adjustment using inflation accounting in consideration of hyperinflationary economy in Turkey. By applying the principles of inflation accounting for Cengiz Makina, the tax base of certain non-monetary items previously accounted at historical cost in tax filing currency TL should be adjusted by multiplying inflationary adjustment coefficients, while the accounting base of these non-monetary items remained unaffected in its functional currency Euro ("EUR"), which resulted in credit effect of income tax during the year ended 31 December 2023.

8 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 December 2023						
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Sub-Total HK$'000	Share-based payments (Note) HK$'000	Total HK$'000
Executive directors							
Lu Ruibo	320	2,969	157	405	3,851	–	3,851
Wang Hui, Ina	320	2,119	255	112	2,806	186	2,992
Yu Yuepeng	320	1,420	416	112	2,268	186	2,454
Zhu Liwei	320	1,199	823	84	2,426	186	2,612
Wang Dong	320	1,332	181	111	1,944	186	2,130
Independent non-executive directors							
Yu Kwok Kuen Harry	320	–	–	–	320	–	320
Yen Gordon	320	–	–	–	320	–	320
Lee Siu Ming	320	–	–	–	320	–	320
Total	2,560	9,039	1,832	824	14,255	744	14,999

8 DIRECTORS' REMUNERATION (Continued)

	Year ended 31 December 2022						
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Sub-Total HK$'000	Share-based payments (Note) HK$'000	Total HK$'000
Executive directors							
Lu Ruibo	300	2,991	976	405	4,672	–	4,672
Wang Hui, Ina	300	2,112	406	112	2,930	345	3,275
Yu Yuepeng	300	1,520	895	113	2,828	345	3,173
Zhu Liwei	300	1,420	815	113	2,648	345	2,993
Wang Dong	300	1,420	125	113	1,958	345	2,303
Independent non-executive directors							
Yu Kwok Kuen Harry	300	–	–	–	300	–	300
Yen Gordon	300	–	–	–	300	–	300
Lee Siu Ming	300	–	–	–	300	–	300
Total	2,400	9,463	3,217	856	15,936	1,380	17,316

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(r)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "share option scheme" in the Report of the Directors and Note 26.

9 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2022: four) directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the paid amount to the other three (2022: one) individuals of the Group are as follows:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**7,132**	2,431
Discretionary bonuses	**1,915**	1,149
Share-based payments	**344**	241
Retirement scheme contributions	**456**	42
	9,847	3,863

The emoluments of the three (2022: one) individuals with the highest emoluments are within the following bands:

	Year ended 31 December	
	2023	2022
	Number of individuals	Number of individuals
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,500,001 to HK$4,000,000	**2**	1

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	Remeasurement of defined benefit plan obligations HK$'000	Exchange differences on translation of financial statements HK$'000	Total HK$'000
For the year ended 31 December 2023			
Before-tax amount	**(10,643)**	**218,491**	**207,848**
Tax benefit	**2,059**	**–**	**2,059**
Net-of-tax amount	**(8,584)**	**218,491**	**209,907**
For the year ended 31 December 2022			
Before-tax amount	(11,191)	(270,819)	(282,010)
Tax benefit	1,141	–	1,141
Net-of-tax amount	(10,050)	(270,819)	(280,869)

(Expressed in Hong Kong dollars unless otherwise indicated)

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$585,093,000 (2022: HK$581,945,000) and the weighted average of 1,885,638,877 ordinary shares (2022: 1,883,383,993 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2023	2022
Issued ordinary shares at 1 January	**1,884,559,500**	1,883,295,000
Effect of exercise of share options (Note 26)	**1,079,377**	88,993
Weighted average number of ordinary shares at 31 December	**1,885,638,877**	1,883,383,993

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$585,093,000 (2022: profit of HK$581,945,000) and the weighted average number of ordinary shares of 1,886,951,273 shares (2022: 1,883,383,993 ordinary shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2023	2022
Weighted average number of ordinary shares at 31 December	**1,885,638,877**	1,883,383,993
Effect of deemed issue of shares under the Company's share option scheme (Note 26)	**1,312,396**	–
Weighted average number of ordinary shares (diluted) at 31 December	**1,886,951,273**	1,883,383,993

For the years ended 31 December 2023 and 2022, the Company has the outstanding share options under the Company's share option scheme as the dilutive potential ordinary shares.

During the year ended 31 December 2022, the dilutive potential ordinary shares were not included in the calculation of diluted earnings per share as their inclusion would be anti-dilutive. Accordingly, diluted earnings per share was the same as basic earnings per share of the years ended 31 December 2022.

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Leasehold land (Note) HK$'000	Properties held for own use (Note) HK$'000	Machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:								
At 1 January 2022	131,090	175,817	1,355,544	3,301,317	411,931	33,149	1,050,681	6,459,529
Acquisition of businesses	–	–	–	80,993	660	7	2,112	83,772
Additions	–	–	26,607	239,645	35,603	8,660	296,824	607,339
Transfers	–	–	111,583	463,606	5,743	–	(580,932)	–
Disposals	(5,938)	–	(17,120)	(14,090)	(4,330)	(2,895)	–	(44,373)
Exchange adjustment	(3,213)	(15,076)	(107,466)	(248,617)	(34,246)	(2,157)	20,177	(390,598)
At 31 December 2022 and 1 January 2023	**121,939**	**160,741**	**1,369,148**	**3,822,854**	**415,361**	**36,764**	**788,862**	**6,715,669**
Additions	**–**	**39,309**	**14,632**	**76,493**	**30,382**	**1,388**	**545,234**	**707,438**
Transfers	**–**	**–**	**448,794**	**257,007**	**4,678**	**218**	**(710,697)**	**–**
Disposals	**–**	**–**	**(31,468)**	**(46,999)**	**(15,121)**	**(2,217)**	**–**	**(95,805)**
Exchange adjustment	**9,867**	**(2,551)**	**17,272**	**73,774**	**(3,919)**	**853**	**84,409**	**179,705**
At 31 December 2023	**131,806**	**197,499**	**1,818,378**	**4,183,129**	**431,381**	**37,006**	**707,808**	**7,507,007**
Accumulated depreciation and impairment:								
At 1 January 2022	–	26,800	356,849	1,775,861	307,448	22,515	–	2,489,473
Charge for the year	–	3,518	46,006	238,214	37,743	2,582	–	328,063
Written back on disposals	–	–	(6,014)	(12,195)	(3,472)	(2,119)	–	(23,800)
Impairment	–	–	–	79,862	–	–	–	79,862
Exchange adjustment	–	(2,396)	(33,350)	(144,600)	(26,155)	(1,620)	–	(208,121)
At 31 December 2022 and 1 January 2023	**–**	**27,922**	**363,491**	**1,937,142**	**315,564**	**21,358**	**–**	**2,665,477**
Charge for the year	**–**	**4,089**	**54,810**	**290,809**	**36,304**	**3,850**	**–**	**389,862**
Written back on disposals	**–**	**–**	**(25,013)**	**(41,020)**	**(13,055)**	**(2,085)**	**–**	**(81,173)**
Exchange adjustment	**–**	**(424)**	**(4,631)**	**6,025**	**(3,382)**	**(289)**	**–**	**(2,701)**
At 31 December 2023	**–**	**31,587**	**388,657**	**2,192,956**	**335,431**	**22,834**	**–**	**2,971,465**
Net book value:								
At 31 December 2023	**131,806**	**165,912**	**1,429,721**	**1,990,173**	**95,950**	**14,172**	**707,808**	**4,535,542**
At 31 December 2022	121,939	132,819	1,005,657	1,885,712	99,797	15,406	788,862	4,050,192

Note:

The Group obtains the right to use certain land in the PRC under several operating lease agreements of 50 years. As at 31 December 2023, the carrying amounts of leasehold land held for own use were HK$165,912,000 (2022: HK$132,819,000), and the carrying amount of properties held for own use thereon were HK$820,630,000 (2022: HK$762,064,000).

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(Expressed in Hong Kong dollars unless otherwise indicated)

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Leasehold land, carried at depreciated cost in the PRC, with remaining lease term of between 10 and 50 years	**165,912**	132,819
Properties held for own use, carried at depreciated cost	**16,551**	17,432
Furniture, fixtures and equipment, carried at depreciated cost	**657**	970
Machinery, carried at depreciated cost	**–**	110,584
	183,120	261,805

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold land	**4,089**	3,518
Properties held for own use	**11,608**	6,723
Furniture, fixtures and equipment	**348**	239
Machinery	**–**	15,188
Motor vehicles	**–**	237
	16,045	25,905
Interest on lease liabilities (Note 6(a))	**706**	679
Expense relating to short-term leases	**4,945**	2,847
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**528**	464

During the year ended 31 December 2023, additions to right-of-use assets were HK$52,440,000 (2022: HK$15,181,000). This amount included the acquisition of leasehold land of HK$39,309,000 (2022: HK$nil), and the remainder primarily related to the capitalized lease payments under new tenancy agreements.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in Notes 21(d), 23 and 33(b), respectively.

13 INTANGIBLE ASSETS

	Customer relationships HK$'000	Patents and know-how HK$'000	Total HK$'000
Cost:			
At 1 January 2022	191,621	36,340	227,961
Acquisition of business	126,286	92,454	218,740
Exchange adjustment	(10,587)	(886)	(11,473)
At 31 December 2022 and 1 January 2023	**307,320**	**127,908**	**435,228**
Disposals	**(79,561)**	**(9,716)**	**(89,277)**
Exchange adjustment	**1,731**	**(1,772)**	**(41)**
At 31 December 2023	**229,490**	**116,420**	**345,910**
Accumulated amortization and impairment:			
At 1 January 2022	164,257	19,978	184,235
Charge for the year	11,245	5,149	16,394
Exchange adjustment	(11,942)	(1,853)	(13,795)
At 31 December 2022 and 1 January 2023	**163,560**	**23,274**	**186,834**
Charge for the year	**18,574**	**12,324**	**30,898**
Written back on disposals	**(79,561)**	**(9,716)**	**(89,277)**
Exchange adjustment	**2,988**	**(345)**	**2,643**
At 31 December 2023	**105,561**	**25,537**	**131,098**
Net book value:			
At 31 December 2023	**123,929**	**90,883**	**214,812**
At 31 December 2022	143,760	104,634	248,394

Intangible assets represent customer relationships and patents acquired by the Group in connection with the acquisition of Impro Aerotek (Nantong) Limited, Nantong Shenhai Investment Co., Ltd. and Haimen Xinhai Special Plating Co., Ltd. (collectively, the "Shenhai Group") completed on 3 June 2014, customer relationships, incomplete contracts and know-how acquired by the Group in connection with the acquisition of Cengiz Makina completed on 26 August 2014, know-how acquired by the Group in connection with the acquisition of Impross Impeller completed on 23 August 2017 and customer relationships and patents and know-how acquired by the Group in connection with the acquisition of the hydraulic orbital motor business completed on 31 October 2022. The amortization charge for the years ended 31 December 2023 and 2022 is included in "cost of sales" and "administrative and other operating expenses" in the consolidated statement of profit or loss.

14 GOODWILL

	HK$'000
Cost:	
At 1 January 2022	–
Acquisition of business	225,506
Exchange adjustment	5,315
At 31 December 2022 and 1 January 2023	230,821
Exchange adjustment	(3,299)
At 31 December 2023	227,522
Accumulated impairment losses:	
At 1 January 2022, 31 December 2022,1 January 2023 and 31 December 2023	–
Carrying amount:	
At 31 December 2023	227,522
At 31 December 2022	230,821

Impairment tests for cash-generating unit containing goodwill

For the purpose of goodwill impairment testing, goodwill arising from the business combination was allocated to the appropriate cash-generation units ("CGU") of the Group identified according to the individual hydraulic orbital motor business acquired by the Group in 2022.

Goodwill is allocated to the Group's CGU as follows:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Hydraulic orbital motor business	**227,522**	230,821

14 GOODWILL (Continued)

Impairment tests for cash-generating unit containing goodwill (Continued)

The recoverable amount of the CGU is determined based on value-in-use calculation. The Group engaged an independent professional valuer to assist with the calculation. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions used in estimating the recoverable amount are as follows:

	2023 **HK$'000**	2022 HK$'000
Annual revenue growth rate during the forecast period	**16.8%**	6.3%
Operating profit margin	**14.8%**	13.8%
Growth rate beyond the forecast period	**3.0%**	3.0%
Pre-tax discount rate	**14.1%**	14.1%

Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate which is consistent with the forecasts included in industry reports and generally in line with 2022.

As at 31 December 2023, the recoverable amount of the CGU was HK$656,925,000 (2022: HK$520,902,072), which was higher than its carrying amount by HK$23,191,000 (2022: HK$31,601,000).

Management performed sensitivity analysis of three key assumptions that could significantly affect the recoverable amount. The following table shows the percentage by which these three assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

Change required for recoverable amount to equal carrying amount (in percentage point)

	2023	2022
Hydraulic orbital motor business		
Increase in discount rate	**+0.6%**	+1.1%
Decrease in annual revenue growth rate during the forecast period	**-1.0%**	-1.3%
Decrease in operating profit margin rate	**-0.7%**	-1.0%

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15 DEFERRED EXPENSES

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Cost:		
At the beginning of the year	**579,396**	602,119
Additions	**75,992**	76,094
Disposals	**(62,657)**	(46,870)
Exchange adjustment	**(8,334)**	(51,947)
At the end of the year	**584,397**	579,396
Accumulated amortization:		
At the beginning of the year	**416,128**	423,673
Charge for the year	**75,854**	76,158
Disposals	**(62,657)**	(46,870)
Exchange adjustment	**(5,999)**	(36,833)
At the end of the year	**423,326**	416,128
Net book value:		
At the end of the year	**161,071**	163,268
At the beginning of the year	**163,268**	178,446

The amortization charges for the years ended 31 December 2023 and 2022 were included in "cost of sales" in the consolidated statement of profit or loss.

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16 INTEREST IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary.

Company name	Place of incorporation and business	Particulars of issued and paid-in capital	Proportion of ownership interest held by the Company		Principal activities
			Directly	Indirectly	
Impro Holdings Limited	The British Virgin Islands	United States Dollar ("US$") 128,206	100%	–	Investment holding
Impro International Limited	Hong Kong	HK$1,000,000	–	100%	The principal activities of the company are investment holding, manufacturing and trading sales of investment casting, sand casting products, sales of and precision machining products, and provision of corporate and business development and customer relationship management functions
Impro Investment (Hong Kong) Limited	Hong Kong	HK$100	–	100%	Investment holding
Impro (China) Limited (鷹普(中國)有限公司)	The PRC — wholly foreign-owned enterprise	US$101,800,000	–	100%	Manufacturing investment casting, sand casting and precision machining products
Wuxi Impro-Bees Precision Hydraulics Co., Ltd. (無錫鷹貝精密液壓有限公司)	The PRC — wholly foreign-owned enterprise	US$15,800,000	–	100%	Manufacturing precision machining products
Impro Aerotek Limited (鷹普航空科技有限公司)	The PRC — wholly foreign-owned enterprise	US$110,000,000	–	100%	Manufacturing investment casting and precision machining products
Wuxi Impro-Bees Plating and Painting Co., Ltd. (無錫鷹貝電化學工程有限公司)	The PRC — domestic enterprise	Chinese Yuan ("RMB") 8,119,156.47 (2022: US$1,000,000)	–	100%	Providing surface treatment, including plating, anodizing, painting and coating
Impro Industries (Yixing) Co., Ltd. (鷹普機械(宜興)有限公司)	The PRC — wholly foreign-owned enterprise	US$53,800,000	–	100%	Manufacturing investment casting and sand casting products
Impro Industrial (Taizhou) Co., Ltd. (鷹普機械(泰州)有限公司)	The PRC — wholly foreign-owned enterprise	US$6,500,000	–	100%	Manufacturing sand casting products
Impro Aerotek (Nantong) Limited. (鷹普航空科技(南通)有限公司) (formerly known as "Nantong Shenhai Science and Industrial Technology Co., Ltd. (南通申海工業科技有限公司)")	The PRC — domestic enterprise	RMB10,430,000	–	100%	Providing surface treatment, including plating, anodizing, painting and coating

NOTES TO THE FINANCIAL STATEMENTS

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16 INTEREST IN SUBSIDIARIES (Continued)

Company name	Place of incorporation and business	Particulars of issued and paid-in capital	Proportion of ownership interest held by the Company: Directly	Proportion of ownership interest held by the Company: Indirectly	Principal activities
Impross Impeller (Yixing) Co., Ltd. (鷹普羅斯葉輪(宜興)有限公司)	The PRC — equity joint venture	US$2,969,696.97	–	67%	Manufacturing machining parts and impellers
Impro Fluidtek Limited (鷹普流體科技有限公司)	The PRC — wholly foreign-owned enterprise	US$60,300,000	–	100%	Investment holding and trading of fluid components
Impro Industries USA, Inc.	United States	US$500,000	–	100%	Managing logistic centre, warehouses, sales of investment casting, sanding casting and precision machining products and provision of customer maintenance service
Impro Europe SARL	Luxembourg	EUR 20,000	–	100%	Investment holding, managing logistic centre, sales of investment casting, sand casting and precision machining products and provision of customer maintenance service
Impro Germany GmbH	Germany	EUR250,000	–	100%	Provision of customer maintenance service
BFG Feinguss GmbH	Germany	EUR490,000	–	100%	Manufacturing investment casting products
BFG Czech s.r.o.	Czech Republic	Czech Koruna 1,450,000	–	100%	Manufacturing investment casting products
Cengiz Makina Sanayi ve Ticaret Anonim Sirketi	Turkey	Turkish Lira ("TL") 7,005,000	–	100%	Manufacturing precision machining products
Impro Industries Mexico, S. de R.L. de C.V.	Mexico	Mexican Peso ("MXN") 3,717,009,759	–	100%	Manufacturing investing casting, sand casting and precision machining products
Impro Aerospace Mexico, S. de R.L. de C.V.	Mexico	MXN497,623,535	–	100%	Manufacturing aerospace end-market and providing surface treatment, including plating, anodizing, painting and coating products
Impro Aerotek International Limited	Hong Kong	US$3,000,000	–	100%	Investment holding and trading of aerospace and medical components
Impro Aerotek USA, Inc.	United States	US$1,000,000	–	100%	Logistics centre, warehouses, sales and customer services offices for aerospace and medical components
Impro Aerotek Europe SARL	Luxembourg	EUR100,000	–	100%	Logistics centre, warehouses, sales and customer services offices for aerospace and medical components

16 INTEREST IN SUBSIDIARIES (Continued)

Company name	Place of incorporation and business	Particulars of issued and paid-in capital	Proportion of ownership interest held by the Company		Principal activities
			Directly	Indirectly	
Foshan Amerifirge Manufacturing Technology Co., Ltd. (佛山市美鍛製造技術有限公司)	The PRC — domestic enterprise	RMB44,776,317	–	100%	Manufacturing investment casting and precision machining products
Impro Fluidtek (Zhenjiang) Limited (鷹普流體科技(鎮江)有限公司)	The PRC — Sino-foreign joint venture	US$20,000,000	–	100%	Manufacturing fluid products
Impro Fluidtek International Limited	Hong Kong	US$530,950	–	100%	Investment holding and trading of fluid components
Impro Fluidtek Europe SARL	Luxembourg	EUR50,000	–	100%	Logistics centre, warehouses, sales and customer services offices for fluid components
Impro Fluidtek America Holding Inc.	United States	US$500,000	–	100%	Investment holding and trading of fluid components
Impro Fluidtek USA, LLC	United States	US$400,000	–	100%	Logistics centre, warehouses, sales and customer services offices for fluid components
Impro Aerotek Germany GmbH	Germany	EUR25,000	–	100%	Logistics centre, warehouses, sales and customer services offices for aerospace and medical components

17 OTHER FINANCIAL ASSET

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Equity securities at FVOCI (non-recycling)		
— Unlisted equity securities	**1,554**	1,576

The unlisted equity securities are shares in a private company incorporated in the PRC and primarily engaged in financial guarantee business. The Group designated its investment at FVOCI (non-recycling). No dividends were received on this investment during the years ended 31 December 2023 and 2022.

The analysis on the fair value measurement of the above financial assets is disclosed in Note 33(e).

18 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Raw materials	**253,368**	337,005
Work in progress	**378,371**	392,419
Finished goods	**441,233**	509,284
	1,072,972	1,238,708
Write down of inventories	**(111,777)**	(86,637)
	961,195	1,152,071

(b) The analysis of the amount of inventories recognized as an expense and included in the consolidated statement of profit or loss is as follows:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Carrying amount of inventories sold	**3,401,231**	3,085,634
Provision for write-down of inventories	**24,816**	8,123
	3,426,047	3,093,757

All inventories are expected to be recovered within one year.

19 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Trade receivables	**1,026,376**	1,050,511
Bills receivable	**75,823**	57,560
	1,102,199	1,108,071
Less: loss allowance	**(20,826)**	(16,855)
	1,081,373	1,091,216

All of the trade and bills receivables are expected to be recovered within one year.

Aging analysis

As of the end of the reporting period, the aging analysis of trade and bills receivables, based on the invoice date and net of allowance for loss allowance, is as follows:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Within 1 month	**572,492**	488,554
1 to 3 months	**390,336**	420,562
Over 3 months but within 12 months	**118,545**	182,100
	1,081,373	1,091,216

Trade and bills receivables are due within 15-120 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 33(a).

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Prepayments	**81,803**	44,670
Value added tax recoverable	**173,916**	141,049
Other deposits and receivables	**47,147**	33,456
	302,866	219,175

21 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Cash at bank	**630,721**	482,985
Cash in hand	**129**	301
	630,850	483,286

As at 31 December 2023, cash and cash equivalents situated in Chinese Mainland amounted to HK$464,990,000 (2022: HK$302,813,000). Remittance of funds out of Chinese Mainland is subject to relevant rules and regulations of foreign exchange control.

21 CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations

		Year ended 31 December	
		2023	2022
	Note	**HK$'000**	HK$'000
Profit before taxation		**619,872**	689,005
Adjustments for:			
— Depreciation of property, plant and equipment	6(c)	**389,862**	328,063
— Amortization of intangible assets	6(c)	**30,898**	16,394
— Amortization of deferred expenses	6(c)	**75,854**	76,158
— Net finance costs	6(a)	**108,377**	55,884
— Net loss/(gain) on disposal of property, plant and equipment	5(b)	**8,030**	(17,466)
— Provision of impairment loss of property, plant and equipment		**–**	79,862
— Provision of impairment loss on trade receivables	6(c)	**4,071**	7,901
— Provision for write-down of inventories	6(c)	**24,816**	8,123
— Equity settled share-based payment expenses	6(b)	**1,431**	3,757
Operating profit before changes in working capital		**1,263,211**	1,247,681
Decrease/(increase) in inventories		**170,294**	(180,973)
Decrease/(increase) in trade and bills receivables		**10,519**	(180,858)
Increase in prepayments, deposits and other receivables		**(63,603)**	(2,753)
Increase in trade payables		**60,973**	78,580
Increase/(decrease) in deferred income		**7,589**	(5,844)
Increase/(decrease) in other payables and accruals		**10,472**	(15,741)
(Decrease)/increase in defined benefit plan obligations		**(4,919)**	428
Cash generated from operations		**1,454,536**	940,520

21 CASH AND CASH EQUIVALENTS (Continued)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans HK$'000 (Note 22)	Lease liabilities HK$'000 (Note 23)	Total HK$'000
At 1 January 2022	1,528,905	15,949	1,544,854
Changes from financing cash flows:			
Proceeds from bank loans	1,626,548	–	1,626,548
Repayment of bank loans	(950,661)	–	(950,661)
Capital element of lease rentals paid	–	(8,704)	(8,704)
Interest element of lease rentals paid	–	(679)	(679)
Interest paid	(59,618)	–	(59,618)
Total changes from financing cash flows	616,269	(9,383)	606,886
Exchange adjustments	(18,148)	(3,163)	(21,311)
Other changes:			
Increase in lease liabilities from entering into new leases during the year	–	15,181	15,181
Interest expenses (Note 6(a))	59,618	679	60,297
At 31 December 2022 and 1 January 2023	2,186,644	19,263	2,205,907
Changes from financing cash flows:			
Proceeds from bank loans	**1,295,027**	**–**	**1,295,027**
Repayment of bank loans	**(1,228,330)**	**–**	**(1,228,330)**
Capital element of lease rentals paid	**–**	**(14,986)**	**(14,986)**
Interest element of lease rentals paid	**–**	**(706)**	**(706)**
Interest paid	**(115,550)**	**–**	**(115,550)**
Total changes from financing cash flows	**(48,853)**	**(15,692)**	**(64,545)**
Exchange adjustments	**(12,838)**	**(100)**	**(12,938)**
Other changes:			
Increase in lease liabilities from entering into new leases during the year	**–**	**13,131**	**13,131**
Interest expenses (Note 6(a))	**115,550**	**706**	**116,256**
At 31 December 2023	**2,240,503**	**17,308**	**2,257,811**

21 CASH AND CASH EQUIVALENTS (Continued)

(d) Total cash outflow for leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Within operating cash flows	**5,473**	3,311
Within investing cash flows	**39,309**	–
Within financing cash flows	**15,692**	9,383
	60,474	12,694

These amounts relate to the following:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Lease rentals paid	**21,165**	12,694
Acquisition of leasehold land	**39,309**	–
	60,474	12,694

21 CASH AND CASH EQUIVALENTS (Continued)

(e) Net cash outflow arising from the acquisition of businesses

The recognized amounts of assets acquired and liabilities at the date of acquisition of businesses comprise the following:

	2022 HK$'000
Property, plant and equipment (Note 12)	83,772
Intangible assets (Note 13)	218,740
Goodwill (Note 14)	225,506
Inventories	57,049
Trade and bills receivables	24,896
Prepayments, deposits and other receivables	2,393
Cash and cash equivalents	4,411
Trade payables	(60,288)
Other payables and accruals	(6,722)
Deferred tax liabilities (Note 27(b))	(322)
Total consideration paid in cash	549,435
Less: cash of businesses acquired	(4,411)
Net consideration paid in cash	545,024

22 BANK LOANS

The maturity profile for the interest-bearing bank loans of the Group at the end of each reporting period is as follows:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Short-term bank loans	**432,421**	375,989
Current portion of long-term bank loans	**596,173**	566,418
Within 1 year or on demand	**1,028,594**	942,407
After 1 year but within 2 years	**576,593**	544,566
After 2 years but within 5 years	**635,316**	699,671
	1,211,909	1,244,237
	2,240,503	2,186,644

Notes:

(i) As at 31 December 2023 and 2022, the bank loans were unsecured.

(ii) Fulfilment of loan covenants

Certain banking facilities of the Group are subject to the fulfilment of financial covenants relating to certain of the financial ratios of the Group or the subsidiary of the Group, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 33(b). As at 31 December 2023 and 2022, none of the covenants relating to drawn down facilities was breached.

23 LEASE LIABILITIES

At 31 December 2023, the lease liabilities were repayable as follows:

	At 31 December 2023 HK$'000	At 31 December 2022 HK$'000
Within 1 year	**7,659**	14,368
After 1 year but within 2 years	**3,523**	4,389
After 2 years but within 5 years	**6,126**	493
After 5 years	**–**	13
	9,649	4,895
	17,308	19,263

24 TRADE PAYABLES

	At 31 December 2023 HK$'000	At 31 December 2022 HK$'000
Trade payables	**519,542**	457,784

All of the trade payables are expected to be settled within one year or repayable on demand.

As of the end of the reporting period, the aging analysis of trade payables, based on the invoice date, is as follows:

	At 31 December 2023 HK$'000	At 31 December 2022 HK$'000
Within 1 month	**311,748**	237,929
1 to 3 months	**166,343**	197,456
Over 3 months	**41,451**	22,399
	519,542	457,784

25 OTHER PAYABLES AND ACCRUALS

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Other payables (Note)	**252,042**	255,915
Accrued expenses	**56,829**	47,174
	308,871	303,089

All of the other payables are expected to be settled within one year or repayable on demand.

Note:

An analysis of the other payables of the Group is as follows:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Deferred consideration payable	**21,900**	22,218
Salaries, wages, bonus and benefits payable	**109,950**	97,791
Payables for purchase of property, plant and equipment	**33,158**	44,666
Contract liabilities	**21,108**	9,627
Other taxes payable	**18,262**	28,713
Maintenance costs payable	**4,499**	4,851
Freight costs payable	**4,393**	11,299
Others	**38,772**	36,750
	252,042	255,915

Contract liabilities represent customers' advances received for goods that have not yet been transferred to the customers. All of the other contract liabilities are expected to be recognized as income within one year.

(Expressed in Hong Kong dollars unless otherwise indicated)

26 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 28 June 2019, 30,230,000 share options were granted to directors, senior management and employees of the Group in three tranches under the Company's employee share option scheme. A portion of share options vested and expired during the year ended 31 December 2023, and the rest share options will vest on 29 June 2024, and then be exercisable until 25 December 2024 in tranches. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
— on 28 June 2019	2,000,400	On 29 June 2022	3.5 years
— on 28 June 2019	1,999,800	On 29 June 2023	4.5 years
— on 28 June 2019	1,999,800	On 29 June 2024	5.5 years
Options granted to senior management:			
— on 28 June 2019	1,558,646	On 29 June 2022	3.5 years
— on 28 June 2019	1,558,177	On 29 June 2023	4.5 years
— on 28 June 2019	1,558,177	On 29 June 2024	5.5 years
Options granted to employees:			
— on 28 June 2019	6,519,638	On 29 June 2022	3.5 years
— on 28 June 2019	6,517,681	On 29 June 2023	4.5 years
— on 28 June 2019	6,517,681	On 29 June 2024	5.5 years
Total share options granted	30,230,000		

(Expressed in Hong Kong dollars unless otherwise indicated)

26 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2023		2022	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HK$2.40**	**15,724,644**	HK$2.40	25,692,500
Exercised during the year	**HK$2.40**	**(2,726,165)**	HK$2.40	(1,264,500)
Expired during the year	**HK$2.40**	**(4,478,341)**	HK$2.40	(6,598,356)
Forfeited during the year	**HK$2.40**	**(1,338,632)**	HK$2.40	(2,105,000)
Outstanding at the end of the year	**HK$2.40**	**7,181,506**	HK$2.40	15,724,644
Exercisable at the end of the year	**HK$2.40**	**–**	HK$2.40	–

The weighted average share price at the date of exercise for the shares options exercised during the year was HK$2.40 (2022: HK$2.40).

The options outstanding at 31 December 2023 had an exercise price of HK$2.40 (2022: HK$2.40) and a weighted average remaining contractual life of 1 year (2022: 1.5 years).

(Expressed in Hong Kong dollars unless otherwise indicated)

26 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Share options granted on 28 June 2019 (Tranche A)	Share options granted on 28 June 2019 (Tranche B)	Share options granted on 28 June 2019 (Tranche C)
Fair value at grant date	HK$1.01 per share option	HK$1.11 per share option	HK$1.12 per share option
Grant date share price	HK$3.00 per share	HK$3.00 per share	HK$3.00 per share
Exercise price	HK$2.40 per share	HK$2.40 per share	HK$2.40 per share
Expected volatility	39.0%	42.0%	40.0%
Contractual option life	3.5 years	4.5 years	5.5 years
Dividend yield	2.30%	2.30%	2.30%
Risk-free interest rate	1.49%	1.45%	1.45%
Exercise multiple			
— Directors	2.80	2.80	2.80
— Management	2.80	2.80	2.80
— Employees	2.20	2.20	2.20

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2023 **HK$'000**	2022 HK$'000
At the beginnings of the year	**87,628**	54,031
Provision for the year:		
— Chinese Mainland Corporate Income Tax	**28,717**	19,121
— Hong Kong Profits Tax	**34,771**	62,467
— Income tax for tax jurisdictions outside Chinese Mainland and Hong Kong	**54,953**	52,511
— Effect of withholding tax on dividends	**14,894**	6,210
Tax paid:		
— Chinese Mainland Corporate income Tax	**(26,530)**	(21,269)
— Hong Kong Profits Tax	**(81,206)**	(15,969)
— Income tax for tax jurisdictions outside Chinese Mainland and Hong Kong	**(65,381)**	(65,787)
	47,846	91,315
Exchange adjustment	**1,326**	(3,687)
At the end of the year	**49,172**	87,628
Represented by:		
Taxation recoverable	**(10,429)**	(6,854)
Taxation payable	**59,601**	94,482
	49,172	87,628

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognized:

(i) The components of deferred tax assets recognized in the consolidated statement of financial position and the movements during the year are as follows:

	Inventory provision HK$'000	Unrealized profits on inventories HK$'000	Government grant HK$'000	Depreciation of property, plant and equipment HK$'000	Defined benefit plan obligations HK$'000	Accrued expenses HK$'000	Impairment of property, plant and equipment HK$'000	Differentiated functional and tax filing currency HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 January 2022	8,618	11,520	12,621	471	10,743	9,963	–	–	28,640	82,576
Recognized in profit or loss	2,382	8,068	582	8,511	(1,100)	421	9,205	–	(3,437)	24,632
Recognized in other comprehensive income	–	–	–	–	1,141	–	–	–	–	1,141
Exchange adjustment	(670)	–	(1,090)	196	(632)	(800)	(261)	–	(1,711)	(4,968)
At 31 December 2022 and 1 January 2023	**10,330**	**19,588**	**12,113**	**9,178**	**10,152**	**9,584**	**8,944**	**–**	**23,492**	**103,381**
Recognized in profit or loss	**4,065**	**(4,483)**	**443**	**12,128**	**(2,984)**	**(588)**	**–**	**22,678**	**7,369**	**38,628**
Recognized in other comprehensive income	**–**	**–**	**–**	**–**	**2,059**	**–**	**–**	**–**	**–**	**2,059**
Exchange adjustment	**(27)**	**–**	**(175)**	**1,777**	**434**	**126**	**(504)**	**432**	**518**	**2,581**
At 31 December 2023	**14,368**	**15,105**	**12,381**	**23,083**	**9,661**	**9,122**	**8,440**	**23,110**	**31,379**	**146,649**

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognized: (Continued)

(ii) The components of deferred tax liabilities recognized in the consolidated statement of financial position and the movements during the year are as follows:

	Capitalized deferred expenses HK$'000	Fair value adjustment arising from business combination HK$'000	Capitalized borrowing costs HK$'000	Undistributed profits HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 January 2022	37,767	45,998	9,087	8,924	59,790	161,566
Recognized in profit or loss	158	(13,955)	(828)	9,277	2,106	(3,242)
Effect of withholding tax on dividends	–	–	–	(6,210)	–	(6,210)
Acquisition of business	–	322	–	–	–	322
Exchange adjustment	(3,205)	(4,099)	(742)	–	(3,338)	(11,384)
At 31 December 2022 and 1 January 2023	**34,720**	**28,266**	**7,517**	**11,991**	**58,558**	**141,052**
Recognized in profit or loss	**(543)**	**(3,718)**	**(460)**	**16,781**	**(58,764)**	**(46,704)**
Effect of withholding tax on dividends	**–**	**–**	**–**	**(14,894)**	**–**	**(14,894)**
Exchange adjustment	**(493)**	**(182)**	**(103)**	**–**	**1,413**	**635**
At 31 December 2023	**33,684**	**24,366**	**6,954**	**13,878**	**1,207**	**80,089**

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

27 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognized: (Continued)

(iii) Reconciliation to the consolidated statement of financial position:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Net deferred tax assets in the consolidated statement of financial position	**121,256**	69,255
Net deferred tax liabilities in the consolidated statement of financial position	**(54,696)**	(106,926)
	66,560	(37,671)

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in Note 2(s), the Group has not recognized deferred tax assets of HK$25,177,000 (2022: HK$12,783,000) in respect of cumulative losses of the Group's subsidiaries in Chinese Mainland, United States, Germany, Czech and Luxembourg of HK$92,023,000 (2022: HK$53,543,000) as at 31 December 2023, as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entities. The tax losses arising from operations in Czech do not expire under current tax legislation. The tax losses arising from operations in Luxembourg prior to 1 January 2017 do not expire and any further losses arising from 1 January 2017 can be carried forward for 17 years.

(d) Deferred tax liabilities not recognized

As at 31 December 2023, deferred tax liabilities of HK$13,878,000 (2022: HK$11,991,000) were recognized in respect of withholding tax that would be payable on the distribution of the retained profits of the Group's subsidiaries in the foreseeable future. Temporary differences relating to the remaining undistributed profits of subsidiaries amounted to HK$2,696,087,000 (2022: HK$2,747,832,000). Deferred tax liabilities of HK$192,175,000 (2022: HK$189,704,000) have not been recognized in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

28 DEFERRED INCOME

As at 31 December 2023, deferred income represented unamortized conditional government grants amounting to HK$135,126,000 (2022: HK$129,430,000) for acquisition of property, plant and equipment, leasehold land and investment incentive of the Group's PRC subsidiaries.

Deferred income is amortized over the useful life of the related property, plant, equipment and leasehold land upon the completion of the construction or upon the satisfaction of acceptance standards.

29 POST-EMPLOYMENT BENEFITS

(a) Defined benefit retirement plans

The Group has two defined benefit retirement plans for its employees in the Germany subsidiaries that were acquired by the Group on 31 March 2013 (the "Germany DBRPs").

The Group provides pension benefits for those employees who retire in the form of life-long annuities. These are in-line with usual German market practice and do not constitute any unusual or company-specific risks or require any specific regulatory framework to be taken into account. The costs of the Germany DBRPs are solely funded by the Group.

The actuarial valuation of the Germany DBRPs was performed by Mercer Deutschland GmbH, an independent actuary established under the German laws and regulations.

The Group has a defined benefit retirement plan for its employees in the Cengiz Makina that were acquired by the Group on 26 August 2014 (the "Turkey DBRP"). Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). The liability is not funded, as there is no funding request. The obligation has been calculated by estimating the present value of the future probable obligation of Cengiz Makina arising from the employment termination.

The actuarial valuation of the Turkey DBRP was performed by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.S., an independent actuary established under the Turkish laws and regulations.

The Group also has two defined benefit retirement plans for its employees in the Mexico (the "Mexico DBRPs"). Under Mexico Federal Labor Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for, dies, disability or who achieves the retirement age of 55, the Group is also required to pay seniority premium for its voluntary resignation employees after 15 years of service. The costs of the Mexico DBRPs are solely funded by the Group.

29 POST-EMPLOYMENT BENEFITS (Continued)

(a) Defined benefit retirement plans (Continued)

The actuarial valuation of the Mexico DBRPs was performed by Willis Towers Watson, an independent actuary established under the Mexico laws and regulations.

The actuarial valuations of the defined benefit retirement obligation were performed in accordance with IAS 19 *Employee Benefits* as at 31 December 2023 and 2022 by actuaries using the projected unit credit method.

(i) The amounts recognized in the consolidated statement of financial position are as follows:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Present value of defined benefit plan obligations	**64,268**	67,329

(ii) Movements in the present value of the defined benefit plan obligations

	At 31 December	
	2023	2022
	HK$'000	HK$'000
At the beginning of the year	**67,329**	65,188
Remeasurements effect recognized in other comprehensive income:		
Actuarial loss	**10,643**	11,191
Exchange adjustment	**(8,785)**	(9,478)
	69,187	66,901
Benefits paid by the plans	**(12,322)**	(3,261)
Current service cost	**4,173**	2,172
Interest cost	**3,230**	1,517
At the end of the year	**64,268**	67,329

29 POST-EMPLOYMENT BENEFITS (Continued)

(a) Defined benefit retirement plans (Continued)

(iii) Amounts recognized in the consolidated statement of profit or loss and other comprehensive income are as follows:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Current service cost	**4,173**	2,172
Interest on defined benefit plan obligations	**3,230**	1,517
Total amounts recognized in profit or loss (Note 6(b))	**7,403**	3,689
Actuarial loss	**10,643**	11,191
Exchange adjustment	**(8,785)**	(9,478)
Total amounts recognized in other comprehensive income	**1,858**	1,713
Total defined benefit costs	**9,261**	5,402

The weighted average duration of the defined benefit retirement plans obligation of the Germany DBRPs in Germany subsidiaries is 14 (2022: 12) years as at 31 December 2023.

The weighted average duration of the defined benefit retirement plans obligation of the Turkey DBRP in Cengiz Makina is 19 (2022: 20) years as at 31 December 2023.

The weighted average duration of the defined benefit retirement plans obligation of the Mexico DBRPs in a Mexican subsidiary is 12 (2022: not applicable) years as at 31 December 2023.

(iv) The current service cost and the interest on defined benefit plan obligations are recognized in the following line items in the consolidated statement of profit or loss:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Cost of sales	**4,016**	2,172
Administrative and other operating expenses	**3,387**	1,517
	7,403	3,689

29 POST-EMPLOYMENT BENEFITS (Continued)

(a) Defined benefit retirement plans (Continued)

(v) *Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:*

	2023	2022
Discount rate	**4.0%–28.0%**	3.7%–10.0%
Pension inflation	**2.4%–24.0%**	2.4%–7.8%

The below analysis shows how the defined benefit obligation as at 31 December 2023 and 2022 would have increased/(decreased) as a result of 0.5% change in the significant actuarial assumptions:

	2023		2022	
	Increase in 0.5% HK$'000	**Decrease in 0.5% HK$'000**	Increase in 0.5% HK$'000	Decrease in 0.5% HK$'000
Discount rate	**(3,733)**	**4,116**	(4,322)	4,803
Pension inflation	**3,967**	**(3,650)**	4,851	(4,266)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Long service payment liabilities

Hong Kong employees that have been employed continuously for at least five years are entitled to long service payments ("LSP") in accordance with the Hong Kong Employment Ordinance under certain circumstances. These circumstances include where an employee is dismissed for reasons other than serious misconduct or redundancy, that employee resigns at the age of 65 or above, or the employment contract is of fixed term and expires without renewal.

In June 2022, the Government of HKSAR gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will come into effect from 1 May 2025 (the "Transition Date") and eventually abolish the statutory right of an employer to reduce its LSP payable to a Hong Kong employee by drawing on its mandatory contributions to the MPF scheme. However, the Amendment Ordinance does not impact the Group's LSP liability as at 31 December 2023 since the Group makes voluntary (on top of mandatory) contributions to its employee's MPF scheme (note 29(c)) and considers that the accrued benefits derived from such voluntary contributions are expected to be available to offset the eligible employees' LSP related to their service period after the Transition Date (with an overall cap of HK$390,000 per employee).

29 POST-EMPLOYMENT BENEFITS (Continued)

(c) Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the Chinese Mainland, the Chinese Mainland subsidiaries of the Group participate in defined contribution retirement plans (the "Schemes") organized by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the years ended 31 December 2023 and 2022. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contribution to the plan vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

The Group's subsidiaries in jurisdictions other than the Chinese Mainland, Hong Kong, Germany, Turkey and Mexico, make contributions to local retirement schemes pursuant to the relevant labor rules and regulations in the jurisdiction in which such subsidiary located.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

			Reserves			
The Company	**Note**	**Share capital HK$'000**	**Share premium HK$'000**	**Capital reserve HK$'000**	**Retained profits HK$'000**	**Total HK$'000**
Balance at 1 January 2022		188,330	1,430,278	19,144	337,131	1,974,883
Changes in equity for 2022:						
Profit and total comprehensive income for the year		–	–	–	311,851	311,851
Equity settled share-based transactions	26	–	–	3,757	–	3,757
Appropriation of dividends	30(b)	–	–	–	(286,261)	(286,261)
Expiry of share options	26(b)	–	–	(6,634)	6,634	–
Exercise of share options	30(c)(ii)	126	4,178	(1,270)	–	3,034
Balance at 31 December 2022 and 1 January 2023	34	**188,456**	**1,434,456**	**14,997**	**369,355**	**2,007,264**
Changes in equity for 2023:						
Profit and total comprehensive income for the year		**–**	**–**	**–**	**303,750**	**303,750**
Equity settled share-based transactions	26	**–**	**–**	**1,431**	**–**	**1,431**
Appropriation of dividends	30(b)	**–**	**–**	**–**	**(301,685)**	**(301,685)**
Expiry of share options	26(b)	**–**	**–**	**(5,004)**	**5,004**	**–**
Exercise of share options	30(c)(ii)	**273**	**9,308**	**(3,038)**	**–**	**6,543**
Balance at 31 December 2023	34	**188,729**	**1,443,764**	**8,386**	**376,424**	**2,017,303**

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
First interim dividend declared and paid of HK$0.08 per share (2022: HK$0.08 per share)	**150,920**	150,664
Second interim dividend declared after the end of the reporting period of HK$0.08 per share (2022: HK$0.08 per share)	**150,983**	150,765
	301,903	301,429

The second interim dividend declared after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Second interim dividend in respect of the previous financial year, approved and paid during the year, of HK$0.08 per share (2022: HK$0.072 per share)	**150,765**	135,597

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30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Share capital

(i) Issued share capital

	2023		2022	
	No. of shares	**HK$**	No. of shares	HK$
Authorized:				
Ordinary shares of HK$0.1 each (Note)	**13,500,000,000**	**1,350,000,000**	13,500,000,000	1,350,000,000
Ordinary shares, issued and fully paid:				
At 1 January	**1,884,559,500**	**188,455,950**	1,883,295,000	188,329,500
Shares issued under share option scheme	**2,726,165**	**272,617**	1,264,500	126,450
At 31 December	**1,887,285,665**	**188,728,567**	1,884,559,500	188,455,950

Note:

The Company was incorporated in the Cayman Islands on 8 January 2008 with an authorized share capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each. 100 shares of HK$0.1 each were issued and allotted to Impro Development Limited on 8 January 2008.

Pursuant to a written resolution of the board of directors of the Company passed on 21 January 2008, the authorized share capital of the Company was increased from HK$380,000 to HK$760,000 by the creation of an additional 3,800,000 Series A Preference Shares of HK$0.1 each.

Pursuant to a written resolution of the board of directors of the Company passed on 17 June 2011, the authorized share capital of the Company was increased from HK$760,000 to HK$1,350,000,000 by the creation of an additional 13,492,400,000 ordinary shares of HK$0.1 each.

Pursuant to a written resolution of the board of directors of the Company passed on 17 June 2011, the authorized 3,800,000 Series A Preference Shares of HK$0.1 each were reclassified to 3,800,000 ordinary shares of HK$0.1 each.

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme

In 2023, a total of 2,726,165 (2022: 1,264,500) options were exercised to subscribe for a total of 2,726,165 (2022: 1,264,500) ordinary shares in the Company at a consideration of HK$6,543,000 (2022: HK$3,034,000), of which HK$273,000 (2022: HK$126,000) was credited to share capital and HK$6,270,000 (2022: HK$2,908,000) was credited to share premium. HK$3,038,000 (2022: HK$1,270,000) was transferred from the capital reserve to the share premium account in accordance with the policy set out in Note 2(r)(iii).

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between consideration received for ordinary shares subscription net of any transaction costs directly attributable to the subscription and the par value of the ordinary shares subscribed.

(ii) Capital reserve

The capital reserve represents (i) the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of issued share capital of the Company pursuant to the reorganization prior to 2011; (ii) the equity component of the financial instruments issued; and (iii) the portion of the grant date fair value of unexercised share options granted that has been recognized in accordance with the accounting policy adopted for share-based payments in Note 2(r)(iii).

(iii) Statutory surplus reserve

According to laws applicable to the foreign investment enterprises in the PRC and the Articles of Association of certain subsidiaries of the Company in the PRC, the PRC entities are required to appropriate part of their net profits as determined in accordance with the PRC accounting standards to various reserves. These include general reserve and statutory surplus reserve.

For general reserve, appropriation to general reserve is at the discretion of the directors of the relevant PRC entities. The reserve can only be used for specific purposes and is not distributable as cash dividends.

For statutory surplus reserve, 10% of the net profit, as determined in accordance with the PRC accounting standards, of the relevant PRC entities is transferred to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the relevant PRC companies. The transfer to this reserve must be made before distribution of dividends to shareholders can be made. The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issue is not less than 25% of the registered capital. Any amount of funds outside of the 50% reserve balance can be distributed as by the relevant PRC entities, as advances or cash dividends, subject however, to complying with applicable requirements. Such dividend or loans could take a considerable amount of time to implement and to be processed by certain governmental agencies.

The Group's subsidiary Cengiz Makina established and operated in the Turkey are required to appropriate their statutory profits (after offsetting prior year losses) to statutory surplus reserves. In accordance with the Turkish Commercial Code ("TCC"), the statutory reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than HK$. The reserve is dealt with in accordance with the accounting policy as set out in Note 2(u).

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 2(f)).

(e) Distributability of reserves

As at 31 December 2023, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$1,821,298,000 (2022: HK$1,804,921,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintaining a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of net debt to capital ratio. For this purpose, the Group defines net debt as total current and non-current bank loans and lease liabilities less cash and cash equivalents. The Group defines capital as including all components of equity.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(f) Capital management (Continued)

The Group's net debt to capital ratio at 31 December 2023 and 2022 was as follows:

	Note	**31 December 2023 HK$'000**	31 December 2022 HK$'000
Current liabilities:			
Bank loans	22	**1,028,594**	942,407
Lease liabilities	23	**7,659**	14,368
		1,036,253	956,775
Non-current liabilities:			
Bank loans	22	**1,211,909**	1,244,237
Lease liabilities	23	**9,649**	4,895
		1,221,558	1,249,132
Total debt		**2,257,811**	2,205,907
Less: Cash and cash equivalents	21(a)	**(630,850)**	(483,286)
Net debt		**1,626,961**	1,722,621
Total Equity		**4,900,956**	4,397,997
Net debt to capital ratio		**33.2%**	39.2%

Except for the banking facilities which require the fulfilment of certain covenants as disclosed in Note 22, neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements.

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31 COMMITMENTS

Capital commitments outstanding at 31 December not provided for in the financial statements were as follows:

	At 31 December	
	2023	2022
	HK$'000	HK$'000
Contracted for	**286,521**	232,940
Represented by:		
Construction of plants	**154,740**	60,594
Acquisition of machinery	**131,781**	172,346
	286,521	232,940

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	Year ended 31 December	
	2023	2022
	HK$'000	HK$'000
Short-term employee benefits	**30,629**	32,735
Share-based payments	**1,216**	2,334
Contributions to defined contribution retirement plans	**1,993**	1,961
	33,838	37,030

Total remuneration is included in "staff costs" (see Note 6(b)).

(b) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 12% (2022: 12%) and 31% (2022: 31%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 15 to 120 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	At 31 December 2023		
	Expected loss rate %	**Gross carrying amount HK$'000**	**Loss allowance HK$'000**
Current (not past due)	**0.2%**	**854,635**	**1,862**
Less than 1 month past due	**1.2%**	**109,936**	**1,320**
1 to 3 months past due	**3.7%**	**34,548**	**1,279**
More than 3 months but less than 12 months past due	**10.2%**	**8,402**	**853**
More than 12 months past due	**82.3%**	**18,855**	**15,512**
		1,026,376	**20,826**

	At 31 December 2022		
	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	0.3%	801,063	2,818
Less than 1 month past due	2.0%	143,370	2,895
1 to 3 months past due	6.5%	48,429	3,153
More than 3 months but less than 12 months past due	11.2%	55,127	6,187
More than 12 months past due	71.5%	2,522	1,802
		1,050,511	16,855

Expected loss rates are based on actual loss experience over the past years.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

Movement in the loss allowance in respect of trade receivables during the year is as follows:

	2023	2022
	HK$'000	HK$'000
Balance at 1 January	**16,855**	11,556
Impairment loss recognized during the year	**4,071**	7,901
Amounts written off during the year	**(26)**	(2,302)
Exchange adjustment	**(74)**	(300)
Balance at 31 December	**20,826**	16,855

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with leading covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

	At 31 December 2023					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at 31 December 2023 HK$'000
Bank loans	**1,082,501**	**645,339**	**684,794**	**–**	**2,412,634**	**2,240,503**
Trade payables	**519,542**	**–**	**–**	**–**	**519,542**	**519,542**
Other payables and accruals	**308,871**	**–**	**–**	**–**	**308,871**	**308,871**
Lease liabilities	**8,189**	**3,869**	**6,442**	**–**	**18,500**	**17,308**
	1,919,103	**649,208**	**691,236**	**–**	**3,259,547**	**3,086,224**

	At 31 December 2022					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at 31 December 2022 HK$'000
Bank loans	975,715	569,343	740,097	–	2,285,155	2,186,644
Trade payables	457,784	–	–	–	457,784	457,784
Other payables and accruals	303,089	–	–	–	303,089	303,089
Lease liabilities	16,768	6,121	537	15	23,441	19,263
	1,753,356	575,464	740,634	15	3,069,469	2,966,780

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from short-term and long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. For this purpose, the Group defines "total borrowings" as being interest-bearing financial liabilities. The Group's interest rate profile as monitored by management is set out in (i) below:

(i) Interest rate risk profile

The following, as reported to the management of the Group, details the interest rate risk profile of the Group's total borrowings (as defined above) as at the end of the reporting period:

	At 31 December			
	2023		2022	
	Effective Interest rate %	**Amount HK$'000**	Effective Interest rate %	Amount HK$'000
Fixed rate borrowings:				
Bank loans	**3.17%**	**830,691**	3.45%	651,168
Lease liabilities	**3.64%**	**17,308**	3.86%	19,263
		847,999		670,431
Variable rate borrowings:				
Bank loans	**6.76%**	**1,409,812**	5.53%	1,535,476
Total borrowings		**2,257,811**		2,205,907
Fixed rate borrowings as a percentage of total borrowings		**37.6%**		30.4%

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2023, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased or increased the Group's profit after tax and retained profits by approximately HK$11,772,000 (2022: HK$12,819,000) in response to the general increase or decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to floating rate non-derivative instruments held by the Group, which expose the Group to cash flow interest rate risk. The impact on the Group's profit after tax (and retained profits) is estimated as an annualized impact on interest expense of such a change in interest rates. Fixed rate financial instruments are excluded for the above analysis. The analysis is performed on the same basis as 2022.

(d) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, cash and bank loans balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, EUR, RMB, TL and MXN.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from the recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of exposure are shown in HK$ translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the Group's subsidiaries with functional currency other than HK$ into the Group's presentation currency are excluded.

	At 31 December	
	2023	2022
	HK$'000	HK$'000
US$		
Trade and bills receivables	**523,971**	684,343
Other receivables	**1,772**	4,013
Cash and cash equivalents	**75,012**	146,164
Trade payables	**(40,226)**	(84,152)
Other payables and accruals	**–**	(123)
Bank loans	**(312,702)**	(690,968)
Net exposure arising from recognized assets and liabilities	**247,827**	59,277

	At 31 December	
	2023	2022
	HK$'000	HK$'000
EUR		
Trade and bills receivables	**89,701**	93,024
Other receivables	**477**	4,398
Cash and cash equivalents	**6,557**	18,459
Trade payables	**(13,008)**	(18,511)
Other payables and accruals	**–**	(1,710)
Bank loans	**–**	(30,484)
Net exposure arising from recognized assets and liabilities	**83,727**	65,176

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33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(i) *Exposure to currency risk* (Continued)

	At 31 December	
	2023	2022
	HK$'000	HK$'000
RMB		
Trade and bills receivables	**186**	1,621
Other receivables	**5,294**	745
Cash and cash equivalents	**673**	109
Trade payables	**(683,228)**	(718,621)
Other payables and accruals	**(5,190)**	(4,245)
Net exposure arising from recognized assets and liabilities	**(682,265)**	(720,391)

	At 31 December	
	2023	2022
	HK$'000	HK$'000
TL		
Trade and bills receivables	**18,048**	11,503
Cash and cash equivalents	**1,825**	2,866
Trade payables	**(394)**	(50,385)
Net exposure arising from recognized assets and liabilities	**19,479**	(36,016)

	At 31 December	
	2023	2022
	HK$'000	HK$'000
MXN		
Cash and cash equivalents	**508**	26,602
Trade payables	**(38,348)**	(72,810)
Other payables and accruals	**(44)**	–
Net exposure arising from recognized assets and liabilities	**(37,884)**	(46,208)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant.

	2023		2022	
	Increase/ (decrease) in foreign exchange rates %	**Increase/ (decrease) in profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates %	Increase/ (decrease) in profit after tax and retained profits HK$'000
US$	**5%**	**10,480**	5%	2,507
	(5%)	**(10,480)**	(5%)	(2,507)
EUR	**5%**	**3,541**	5%	2,756
	(5%)	**(3,541)**	(5%)	(2,756)
RMB	**5%**	**(28,851)**	5%	(30,466)
	(5%)	**28,851**	(5%)	30,466
TL	**5%**	**750**	5%	(1,387)
	(5%)	**(750)**	(5%)	1,387
MXN	**5%**	**(1,582)**	5%	(1,929)
	(5%)	**1,582**	(5%)	1,929

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group subsidiaries' profit/loss after tax and equity measured in the respective functional currencies, and then translated into HK$ at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of the Group's subsidiaries with functional currency other than HK$ into the Group's presentation currency. The analysis is performed on the same basis as 2022.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(e) Fair value measurement

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

— Level 3 valuations: Fair value measured using significant unobservable inputs.

Analysis on fair value measurement of derivative financial instruments are as follows:

	Fair value at 31 December 2023 HK$'000	Fair value measurement at 31 December 2023 categorized into Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial asset:				
Unlisted equity securities	**1,554**	**–**	**–**	**1,554**

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(e) Fair value measurement (Continued)

Fair value hierarchy (Continued)

	Fair value at 31 December 2022 HK$'000	Fair value measurement at 31 December 2022 categorized into Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial asset:				
Unlisted equity securities	1,576	–	–	1,576

During the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of unlisted equity instruments is determined using the price book value ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2023, it is estimated that a general decrease or increase in discount for lack of marketability by 5%, with all other variables held constant, would have increased or decreased other comprehensive income by HK$3,000 (2022: HK$2,000). Unrealized loss in respect of unlisted equity securities of HK$nil (2022: HK$nil) were recognized in fair value reserve (non-recycling) in other comprehensive income during 2023. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained profits. Further disclosures in report of this asset is set out in Note 17.

Except for unlisted equity securities, all financial instruments carried at cost or amortized cost are at amounts not materially different from their values as at 31 December 2023 and 2022.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2023 HK$'000	2022 HK$'000
Non-current assets			
Interest in subsidiaries		**2,015,346**	2,003,483
		2,015,346	2,003,483
Current assets			
Other receivables		**1,813**	389
Tax recoverable		**175**	–
Cash and cash equivalents		**531**	4,971
		2,519	5,360
Current liabilities			
Other payables		**562**	918
Taxation payable		**–**	661
		562	1,579
Net current assets		**1,957**	3,781
Total assets less current liabilities		**2,017,303**	2,007,264
NET ASSETS		**2,017,303**	2,007,264
CAPITAL AND RESERVES	30		
Share capital		**188,729**	188,456
Reserves		**1,828,574**	1,818,808
TOTAL EQUITY		**2,017,303**	2,007,264

(Expressed in Hong Kong dollars unless otherwise indicated)

35 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors declared a second interim dividend. Further details are disclosed in Note 30(b).

36 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2023, the directors consider the immediate parent of the Company is Impro Development Limited, a company incorporated in British Virgin Islands. The ultimate controlling party is Mr. Lu Ruibo, Chairman of the Group. Impro Development Limited does not produce financial statements available for public use.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2023

Up to date of issue of these financial statements, the IASB has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7 and IFRS 7, *Supplier Finance Arrangements*	1 January 2024
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2024
Amendments to IAS 1, *Non-current Liabilities with Covenants*	1 January 2024
Amendments to IFRS 16, *Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to IAS 21, *Lack of Exchangeability*	1 January 2025

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FINANCIAL SUMMARY

HK$ million	**2023**	2022	2021	2020	2019
Consolidated statement of profit or loss					
Revenue	**4,604.4**	4,354.7	3,777.7	2,924.6	3,640.2
Gross profit	**1,178.3**	1,261.0	1,022.4	767.3	1,131.5
Gross profit margin	**25.6%**	29.0%	27.1%	26.2%	31.1%
Other revenue	**30.2**	23.9	34.4	36.6	23.4
Other net income/(loss)	**20.0**	(24.6)	(48.0)	(27.8)	5.5
Impairment loss on goodwill and other assets	**–**	–	–	(445.2)	–
Selling and distribution expenses	**(158.5)**	(180.7)	(187.4)	(117.0)	(160.6)
Administrative and other operating expenses	**(341.7)**	(334.7)	(328.4)	(245.9)	(303.3)
Profit/(loss) from operations	**728.3**	744.9	493.0	(32.0)	696.5
Operating profit/(loss) margin	**15.8%**	17.1%	13.1%	-1.1%	19.1%
Net finance costs	**(108.4)**	(55.9)	(24.4)	(20.8)	(58.0)
Profit/(loss) before taxation	**619.9**	689.0	468.6	(52.8)	638.5
Income tax	**(33.1)**	(106.2)	(82.8)	(91.5)	(99.5)
Profit/(loss) for the year	**586.8**	582.8	385.8	(144.3)	539.0
Net profit/(loss) margin	**12.7%**	13.4%	10.2%	-4.9%	14.8%
Non-controlling interest	**(1.7)**	(0.8)	(3.0)	(3.9)	(0.2)
Profit/(loss) attributable to shareholders of the Company	**585.1**	582.0	382.8	(148.2)	538.8
Adjusted NPAT[1]	**533.7**	649.9	425.2	317.3	575.9
Adjusted profit attributable to shareholders of the Company	**532.0**	649.1	422.2	313.4	575.7
EBITDA	**1,224.9**	1,165.5	910.0	356.7	1,082.8
Adjusted EBITDA	**1,214.9**	1,227.6	940.9	801.9	1,101.5
Adjusted EBITDA margin	**26.4%**	28.2%	24.9%	27.4%	30.3%
Basic earnings/(loss) per share (HK cents)	**31.0**	30.9	20.3	(7.9)	31.8
Adjusted earnings per share (HK cents)	**28.2**	34.5	22.4	16.6	34.0
Dividend per share (HK cents)	**16.0**	16.0	10.1	4.2	7.2

FINANCIAL SUMMARY

HK$ million	**2023**	2022	2021	2020	2019
Consolidated statement of financial position					
Property, plant and equipment	**4,535.5**	4,050.2	3,970.1	3,256.6	2,884.6
Goodwill and intangible assets	**442.3**	479.2	43.7	60.3	516.2
Cash and cash equivalents and pledged deposits	**630.9**	483.3	579.0	602.0	573.8
Other current and non-current assets	**2,692.2**	2,750.3	2,449.5	1,753.4	1,989.6
Total assets	**8,300.9**	7,763.0	7,042.3	5,672.3	5,964.2
Bank loans and lease liabilities	**2,257.8**	2,205.9	1,544.9	853.8	1,082.2
Other current and non-current liabilities	**1,142.2**	1,159.1	1,118.0	785.6	855.0
Total liabilities	**3,400.0**	3,365.0	2,662.9	1,639.4	1,937.2
Net assets	**4,900.9**	4,398.0	4,379.4	4,032.9	4,027.0
Equity attributable to shareholders of the Company	**4,880.6**	4,379.3	4,356.1	4,013.1	4,012.0
Non-controlling interest	**20.3**	18.7	23.3	19.8	15.0
Total equity	**4,900.9**	4,398.0	4,379.4	4,032.9	4,027.0
Other information/Ratio					
Inventory turnover days	**123**	135	121	137	118
Trade & bills receivables turnover days	**88**	88	84	100	90
Trade payables turnover days	**52**	48	42	48	49
Capital expenditures	**713.0**	599.7	1,054.1	470.5	457.9
Free cash inflow/(outflow) from operations (FCF)[2]	**508.5**	169.0	(606.3)	364.0	461.8
FCF/Adjusted NPAT	**95.3%**	26.0%	-142.6%	114.7%	80.2%
Net gearing ratio	**33.2%**	39.2%	22.1%	6.2%	12.6%
Net debt to adjusted EBITDA[3]	**1.3**	1.4	1.0	0.3	0.5
Interest coverage (times)[4]	**6.2**	13.4	18.5	11.6	9.2
Adjusted return on equity[5]	**11.5%**	14.9%	10.1%	7.8%	17.2%

Notes:

1. Adjusted NPAT represents NPAT added back significant one-off items, and amortisation and depreciation related to purchase price allocation, net of tax.

2. FCF represented net cash generated from operating activities less net cash used in investing activities but add back cash used in acquisitions (as shown in the caption of "Payment of deferred consideration payable" and "Decrease in restricted deposits").

3. Adjusted EBITDA represents EBITDA added back significant one-off items.

4. Interest coverage is profit from operations (adjusted for significant one-off items) divided by interest expenses on total interest-bearing bank loans and lease liabilities.

5. Adjusted return on equity is calculated as adjusted profit for the year attributable to shareholders of the Company divided by the average of the beginning and ending total equity attributable to equity shareholders of the Company of the same year.