IMPRO PRECISION INDUSTRIES LIMITED
鷹普精密工業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1286)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- **Stable revenue, record high profit attributable to shareholders and strong cash conversion**
  - Revenue decreased by 2.9% to HK$3,640.2 million, in terms of local currencies, a decrease of 0.3%
  - Sales to aerospace and medical end-markets increased 23.0% to HK$448.8 million, representing 12.3% of total revenue
  - Profit attributable to shareholders surged 31.5% to HK$538.8 million, excluding one-off items, adjusted profit attributable to shareholders reached HK$575.7 million
  - Free cash flow from operations surged 113.9% to HK$461.8 million, or equivalent to 80.2% of the adjusted profit for the year
- EBITDA increased 13.7% to HK$1,082.8 million and EBITDA margin was 29.7% (2018: 25.4%)
- Basic earnings per share increased 16.5% to 31.8 HK cents
- Net gearing ratio decreased to 12.6% (2018: 63.1%)
- The Board proposed a final dividend of 3.2 HK cents per share. Together with the interim dividend of 4.0 HK cents per share, total dividend for the year would be 7.2 HK cents per share

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**"), I am pleased to present the first annual results of Impro Precision Industries Limited (the "**Company**" or "**Impro Precision**") and its subsidiaries (the "**Group**") for the year ended 31 December 2019 after the successful listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 28 June 2019 ("**Listing Date**").

For the year ended 31 December 2019, the revenue of Impro Precision amounted to HK$3,640.2 million, representing a decrease of 2.9% as compared to HK$3,749.1 million for the year ended 31 December 2018. In terms of local currencies, the revenue of the Group in 2019 recorded a decrease of 0.3% as compared to 2018. Profit attributable to shareholders of the Company (the "**Shareholders**") amounted to HK$538.8 million, representing an increase of 31.5% as compared to HK$409.6 million for the year ended 31 December 2018. For the year ended 31 December 2019, basic earnings per share amounted to 31.8 HK cents, representing an increase of 16.5% as compared to last year.

OVERVIEW OF OPERATING RESULTS

2019 was a year full of uncertainties and negative factors in global trade situation, including, among other things, the changes in international trade relations, geopolitics and debt crisis. And intensified disputes over trade and investment were one of the key factors leading to slower rate of global economic growth. During the year, trade conflicts between the PRC and the United States continued to escalate, resulting in adverse effects on global trade and supply chain, and undermining the confidence of customers in various end-markets, while bringing significant challenges to the business development of the Group.

Revenue by Business Segments

The Group operates four business segments: investment casting, precision machining, sand casting and surface treatment. For the year ended 31 December 2019, investment casting was our largest business segment, and will continue to be our core business segment.

For the year ended 31 December 2019, revenue derived from the investment casting segment was HK$1,682.2 million, representing an increase of 6.4% as compared to last year, which was mainly boosted by rising demand from the aerospace, recreational boat and vehicle and medical end-markets. Revenue derived from the precision machining segment was HK$1,118.7 million, representing a decrease of 7.9% as compared to last year, which was mainly due to the impact of lower demand from commercial vehicles and hydraulic equipment end-markets. Revenue derived from the sand casting segment was HK$564.5 million, representing a decrease of 6.2% as compared to last year, which was mainly due to lower sales in high horsepower engine and construction equipment. Revenue derived from the surface treatment segment was HK$274.8 million, representing a decrease of 21.7% as compared to last year, the decrease was affected by the falling demand from the end-market for passenger cars end-market in the Mainland China.

By Business	Year ended 31 December 2019 HK$ million	%	2018 HK$million	%	Increase/(Decrease) HK$ million	%
Investment casting	**1,682.2**	**46.2%**	1,581.2	42.2%	101.0	6.4%
Precision machining	**1,118.7**	**30.7%**	1,215.2	32.4%	(96.5)	-7.9%
Sand casting	**564.5**	**15.5%**	601.8	16.0%	(37.3)	-6.2%
Surface treatment	**274.8**	**7.6%**	350.9	9.4%	(76.1)	-21.7%
	3,640.2	**100.0%**	3,749.1	100.0%	(108.9)	-2.9%

Revenue by end-markets

The Group sells its products to worldwide customers in a broad range of end-markets, and the end-markets with business coverage include, among other things, automotive (comprising passenger car and commercial vehicle), industrial (such as high horsepower engine, hydraulic equipment, construction equipment and agricultural equipment), aerospace and medical end-markets. During the year, as relatively large discrepancies existed in the developments of various major end-markets, revenue derived from markets covered by the Group's business exhibited more apparent fluctuations. Among these markets, the sales in the automotive end-market decreased by 6.2% as compared to last year, mainly due to the slower growth in the worldwide (especially the PRC) automotive sales during the year. The sales of the industrial end-market decreased by 5.2% as compared to last year, mainly due to the protectionism in individual markets in global trade, bringing greater challenges to the relevant business of the Group. Nevertheless, benefitting from the diversified customer base, excellent production process and one-stop solutions of the Group, and through deepened and refined efforts exerted in various end-markets, the impact from trade conflicts and the decline in the demand from some of the end markets and softness in demand from certain end-markets were reduced substantially during the year. The revenue of the Group derived from the aerospace and medical end-markets during the year maintained a relatively stable growth and increased by 23.0% as compared to last year.

By End Market	Year ended 31 December 2019 HK$ million	%	2018 HK$ million	%	Increase/(Decrease) HK$ million	%
Automotive	**1,637.5**	**45.0%**	1,745.5	46.6%	(108.0)	-6.2%
– Passenger Car	**1,100.8**	**30.2%**	1,138.1	30.4%	(37.3)	-3.3%
– Commercial Vehicle	**536.7**	**14.8%**	607.4	16.2%	(70.7)	-11.6%
Industrial & Others	**1,553.9**	**42.7%**	1,638.8	43.7%	(84.9)	-5.2%
– High Horsepower Engine	**383.2**	**10.5%**	379.5	10.1%	3.7	1.0%
– Hydraulic Equipment	**250.9**	**6.9%**	311.8	8.3%	(60.9)	-19.5%
– Construction Equipment	**218.9**	**6.0%**	260.0	6.9%	(41.1)	-15.8%
– Agricultural Equipment	**202.2**	**5.6%**	235.4	6.3%	(33.2)	-14.1%
– Recreational Boat and Vehicle	**130.7**	**3.6%**	99.8	2.7%	30.9	31.0%
– Others	**368.0**	**10.1%**	352.3	9.4%	15.7	4.5%
Aerospace & Medical	**448.8**	**12.3%**	364.8	9.7%	84.0	23.0%
– Aerospace	**344.2**	**9.4%**	281.9	7.5%	62.3	22.1%
– Medical	**104.6**	**2.9%**	82.9	2.2%	21.7	26.2%
	3,640.2	**100.0%**	3,749.1	100.0%	(108.9)	-2.9%

Revenue by geographical market

For the year ended 31 December 2019, the revenue of the Group decreased mainly due to the decrease in the sales to Europe and Asia (of which, the decrease in the sales to Asia was particularly notable).

	Year ended 31 December					
	2019		2018		Increase/(Decrease)	
By Location	***HK$ million***	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Americas	**1,592.5**	**43.8%**	1,575.1	42.0%	17.4	1.1%
– United States	**1,480.3**	**40.7%**	1,486.5	39.6%	(6.2)	-0.4%
– Others	**112.2**	**3.1%**	88.6	2.4%	23.6	26.6%
Europe	**1,197.4**	**32.9%**	1,222.4	32.6%	(25.0)	-2.0%
Asia	**850.3**	**23.3%**	951.6	25.4%	(101.3)	-10.6%
– PRC	**769.2**	**21.1%**	859.5	22.9%	(90.3)	-10.5%
– Others	**81.1**	**2.2%**	92.1	2.5%	(11.0)	-11.9%
	3,640.2	**100.0%**	3,749.1	100.0%	(108.9)	-2.9%

MARKET AND BUSINESS REVIEW

During the year, revenue derived from the automotive end-market accounted for 45.0% of the total revenue of the Group. As different opportunities and challenges were faced by the global automotive market, polarized performance appeared. According to the report released by the ITRI Industrial Economics and Knowledge Center (工業技術研究院產業科技國際策略發展所), the overall sales of global automotive declined slightly by 4.7% in 2019 as compared to the previous year.

During the year, we conducted bona fide negotiations with individual customers, and transferred additional tariffs partially or wholly to the customers. During the year ended 31 December 2019, the total amount of additional tariffs levied on the product of the Group was approximately HK$128.7 million, and approximately HK$25.6 million of such additional tariff was borne by the Group.

Facing the challenges of international trade, the Group paid close attention to changes in the macro environment of the precision components industry during the year, and continued to focus on products with high precision, high complexity and critical performance, and provided one-stop solutions. We will capture the global industrial development opportunities, reinforce our relationship with existing major customers and develop opportunities of partnership with other leading customers in global industries, to continue the implementation of our “twin-engine growth” strategy through organic growth and strategic acquisition. The Group will also continue to invest in research and development to optimize the production process and improve the operating efficiency.

Meanwhile, we also implement the "Local For Local" strategy for localized development consistently, and are constructing a new production base in San Luis Potosí, Mexico, with a total land area of 227,474 sq. m. during the year. The preliminary construction work was commenced in the second quarter of 2019, and the Group planned to complete the construction of the precision machining and sand casting plants in different stages by the end of 2020. Besides, we have also started the planning and design for the construction of an investment casting plant on the same land site to meet and satisfy the future growth and development of the North American market, it is expected to assist the Group to diversify the potential supply chain risk generated from export sales in future.

During the year, the Group also continued to deepen the development of the aerospace and medical end-markets with vast potential. According to the market research data from Roland Berger, the size of global investment casting market was US$14.2 billion in 2018, of which the contribution from the aerospace and medical end-markets was approximately US$8 billion or 56.3%. As the global market continued to develop with relatively fast expansion in the aerospace and medical end-markets, it is expected by 2023, the proportion contributed by these two end-markets will increase further to US$10.5 billion, and their contribution proportion will increase further to 60.3%. In order to seize the vast market development space, the Group continued to further optimize and adjust its own business segments, accelerated the expansion of the aerospace and medical end-markets, and realized good results during the year.

However, affected by the safety defect incidents of the Boeing 737 Max aircraft, which is one of the major OEM (Original Equipment Manufacturer) in the aerospace end-market, the pace of growth of the aerospace end-market has slowed down.

In conclusion, the difficulties faced by the end-markets under the depressive environment of international trade and the slackened global economic growth were greater than expected, and the business development of global providers in components manufacturing and service was also affected. For this, the Group always pay attention to the industry developments, and strategically further develop and expand the aerospace and medical end-markets which are perceived by us to have high profitability and stronger growth potential to ultimately realize a more balanced coverage in the automotive, industrial, aerospace and medical end-markets.

BUSINESS OUTLOOK

2019 was a year of volatility in the global market environment. The tension of trade war between China and United States continued to escalate, the global automotive market presented a polarized development, and the impact of the Boeing 737 Max incidents on the aerospace end-market cast a cloud of darkness over the development of the global investment casting industry. However, at the end of 2019, all major end-markets began to show signs of warming up. With the signing of first stage agreement in trade negotiations between China and United States on 15 January 2020, the automotive sales in the China market completed inventory elimination and bottomed out, the impact of the Boeing 737 Max incident on the global aerospace end-market was clearer, and as a result Group is cautiously optimistic about the global business development prospects in 2020. As at 29 February 2020, the Group's total order on hand to be fulfilled in 2020 amounted to HK$1,907 million, which will provide strong support for the stable growth of our business in future.

However, since late January 2020, the outbreak of novel coronavirus ("**COVID-19**") epidemic in Mainland China caused temporary production halt in our Group's plants in Mainland China, and production capacity was reduced in February 2020, this brings challenges to the Group's business and supply chain. The management has adopted various measures to safeguard the health of employees and after fulfilling all local government's related regulations, all of our Mainland China plants has already resumed most of production in order to satisfy the demand for goods from customers. However, since late February 2020 up to date, the COVID-19 has a clear tendency to spread outside the PRC; up to 11 March 2020, the WHO announced that COVID-19 can be characterized as a pandemic, as such it will be probable to constitute fluctuations in the demand of different end markets. As there is great uncertainty of the spread of the epidemic, the degree of impact on different end markets and different customers in the future may be varied, and the impact on the overseas plants, warehousing and distribution facilities of the Group cannot be predicted at this stage.

In addition, the Group will persist in the implementation of our effective "twin-engine growth" strategy through organic growth and strategic acquisition to accelerate the elevation of our comprehensive solid capabilities and seize the market development opportunities to maximize the return for Shareholders.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express our gratitude to the Shareholders and business partners for their trust and long-term support to the Group. Moreover, I would also like to express gratitude to the Board, the management of the Company and all employees for their persistent efforts and contributions in the past few years. In 2020, the Company will continue to strive achieving better results to bring better return for the Shareholders.

LU Ruibo
Chairman and Chief Executive Officer

Hong Kong, 12 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

HK$ million	**Year ended 31 December 2019**	2018	% Change
Revenue	**3,640.2**	3,749.1	-2.9%
Gross profit	**1,131.5**	1,207.8	-6.3%
Gross profit margin	**31.1%**	32.2%	-1.1%
Profit attributable to shareholders	**538.8**	409.6	31.5%
Adjusted profit attributable to shareholders[1]	**575.7**	618.3	-6.9%
Basic earnings per share *(HK cents)*	**31.8**	27.3	16.5%
EBITDA[2]	**1,082.8**	952.6	13.7%
EBITDA margin	**29.7%**	25.4%	4.3%
Adjusted EBITDA[3]	**1,101.5**	1,141.8	-3.5%
Adjusted EBITDA margin	**30.3%**	30.5%	-0.2%
Free cash inflow from operations[4]	**461.8**	215.9	113.9%

HK$ million	**As at 31 December 2019**	2018	% Change
Cash and cash equivalents and pledged deposits	**573.8**	237.7	141.3%
Total debt	**1,082.3**	1,930.3	-43.9%
Net debt (total debt less cash and cash equivalents and pledged deposits)	**508.5**	1,692.6	-70.0%
Total equity	**4,027.0**	2,684.2	50.0%
Market capitalization[5]	**6,026.5**	N/A	N/A
Enterprise value[6]	**6,550.0**	N/A	N/A

Key Financial Ratios

	2019	2018
Return on equity	**16.1%**	15.8%
Enterprise value to adjusted EBITDA[3]	**5.9**	N/A
Net debt to adjusted EBITDA[3]	**0.5**	1.5
Net gearing ratio	**12.6%**	63.1%
Interest coverage	**9.2**	6.3

Notes:

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

	Year ended 31 December	
	2019	2018
	HK$ million	*HK$ million*
Profit for the year	**539.0**	411.5
Adjustments:		
– Listing expenses	**18.7**	48.0
– Impairment loss of goodwill	**–**	141.2
– Amortization and depreciation related to purchase price allocation, net of tax	**18.2**	19.5
Adjusted profit for the year	**575.9**	620.2
Less: profit attributable to non-controlling interest	**(0.2)**	(1.9)
Adjusted profit attributable to shareholders of the Company	**575.7**	618.3

2 Earnings before interest, tax, depreciation and amortization.

3 Adjusted EBITDA represents EBITDA added back listing expenses and impairment loss of goodwill for the years ended 31 December 2019 and 2018.

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

	Year ended 31 December	
	2019	2018
	HK$ million	*HK$ million*
EBITDA	**1,082.8**	952.6
Adjustments:		
– Listing expenses	**18.7**	48.0
– Impairment loss of goodwill	**–**	141.2
Adjusted EBITDA	**1,101.5**	1,141.8

4 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 "Acquisitions of subsidiaries, net" and "Increase in restricted deposits").

5 Outstanding number of shares multiplied by the closing share price (HK$3.20 per share as of 31 December 2019).

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

FINANCIAL OVERVIEW

	Year ended 31 December		
HK$ million	**2019**	2018	% Change
Revenue	**3,640.2**	3,749.1	-2.9%
Gross profit	**1,131.5**	1,207.8	-6.3%
Gross profit margin	**31.1%**	32.2%	-1.1%
Other revenue	**23.4**	36.8	-36.4%
Other net income/(loss)	**5.5**	(160.2)	-103.4%
Selling and distribution expenses	**(160.6)**	(162.3)	-1.0%
Administrative and other operating expenses	**(303.3)**	(347.7)	-12.8%
Operating profit	**696.5**	574.4	21.3%
Operating profit margin	**19.1%**	15.3%	3.8%
Net finance costs	**(58.0)**	(87.0)	-33.3%
Profit before taxation	**638.5**	487.4	31.0%
Income tax	**(99.5)**	(75.9)	31.1%
Effective tax rate	**15.6%**	15.6%	0.0%
Profit for the year	**539.0**	411.5	31.0%
Net profit margin	**14.8%**	11.0%	3.8%
Attributable to:			
Equity shareholders of the Company	**538.8**	409.6	31.5%
Non-controlling interest	**0.2**	1.9	-89.5%
	539.0	411.5	31.0%

OVERVIEW

As a global top ten manufacturers of high-precision, high complexity and mission-critical casting and machined components for diverse end-markets, the Group supplies customized casting and machined products and provides surface treatment services to a well-diversified global customer base.

The Group's global leading position is underpinned by the integrated business model with comprehensive capabilities of offering one-stop solutions to customers, including a suite of value-added services, which covers the precision component value chain. Leveraging the Group's strong product design and development capabilities as well as advanced technologies and expertise, the Group strives to keep abreast of global industry trends and manufacture products that cater to customers' evolving needs and satisfy their high quality requirements.

During the year ended 31 December 2019, the trade tension between the United States and China has slowed down the global business activities. Despite the external challenges and difficulties which has led to a 2.9% drop in revenue, the Group has not only been able to maintain its core competitiveness, but at the same time able to react and focus on key end-market segments, together with various cost cutting measures which enable the Group to achieve a consistent adjusted EBITDA margin of 30.3% during the year or slightly 0.2% lower than 2018.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2019 decreased by 2.9% compared to the last year of HK$3,749.1 million. In local currencies, the Group's revenue only decreased by 0.3% compared to last year while RMB and Euro depreciated against Hong Kong Dollars ("**HKD**") by 3.9% and 5.0%, respectively, as compared to 2018.

Gross profit and gross profit margin

The Group's gross profit decreased by HK$76.3 million, or 6.3% to HK$1,131.5 million for the year ended 31 December 2019 as compared to HK$1,207.8 million for the year ended 31 December 2018. Notwithstanding the slowdown of global business operations, the Group achieved an increase in gross profit of HK$39.5 million compared to last year in its investment casting business, while the gross profit contributed by other business segments has decreased during the year ended 31 December 2019, as compared to last year.

The Group's gross profit margin slightly decreased to 31.1% for the year ended 31 December 2019 as compared to 32.2% of last year. The decrease in gross profit margin was mainly attributable to the precision machining business, while there was increase in gross profit margin in the group's investment casting and surface treatment business as compared to last year.

Other revenue

During the year ended 31 December 2019, the Group's other revenue decreased by HK$13.5 million to HK$23.4 million (2018: HK$36.9 million). Other revenue mainly represented discretionary incentives from the local PRC governments in relation to technology development.

Other net income/(loss)

The Group recorded other net income of HK$5.5 million for the year ended 31 December 2019 (2018: other net loss of HK$160.2 million). Other net income/loss mainly represented the net foreign exchange gain/loss due to the fluctuations of Turkish Lira and RMB against HKD during the years. In last year there was also an one-off goodwill impairment loss of HK$141.2 million.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by 1.0% from HK$162.3 million for the year ended 31 December 2018 to HK$160.6 million for the year ended 31 December 2019. Selling and distribution expenses to revenue ratio increased from 4.3% to 4.4% for the year ended 31 December 2019. The Group incurred higher U.S. special custom duties which amounted to HK$25.6 million (2018: HK$11.7 million), if excluding the impact from this additional tariff, the Group's selling and distribution expenses would have decreased by HK$15.6 million or 10.4% as compared to last year.

Administrative and other operating expenses

The Group's administrative and other operating expenses decreased by HK$44.4 million, or 12.8%, to HK$303.3 million for the year ended 31 December 2019, as compared to HK$347.7 million for the year ended 31 December 2018. The decrease was mainly attributable to the listing expenses of HK$18.7 million and HK$48.0 million recorded in the respective years. Excluding the listing expenses, the Group's administrative and other operating expenses decreased by HK$15.1 million, or 5.0%, as compared to last year mainly due to lower impairment loss on trade and other receivables.

Net finance costs

The Group's net finance costs decreased from HK$87.0 million for the year ended 31 December 2018 to HK$58.0 million for the year ended 31 December 2019. The decrease was mainly due to lower net debt balances during the year.

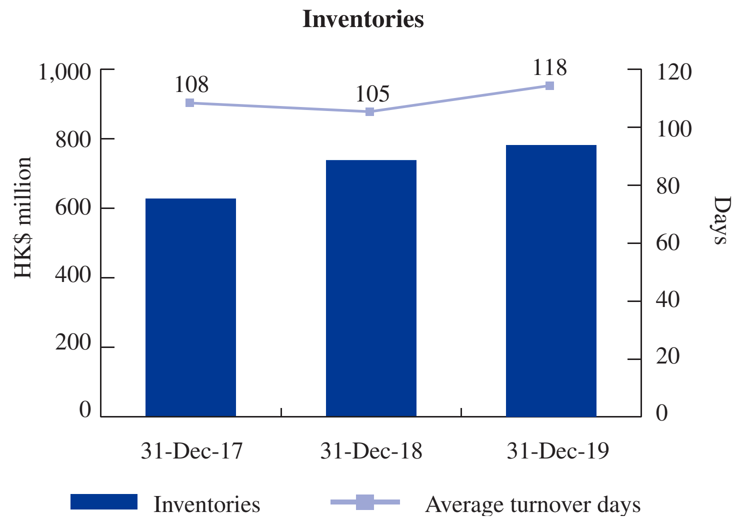
Income tax

The Group's income tax expense increased to HK$99.5 million for the year ended 31 December 2019 from HK$75.9 million for the year ended 31 December 2018. The increase was primarily due to the income tax incentive arising from qualifying investment at our Turkey subsidiary which reduced the income tax expenses by HK$36.6 million in last year.

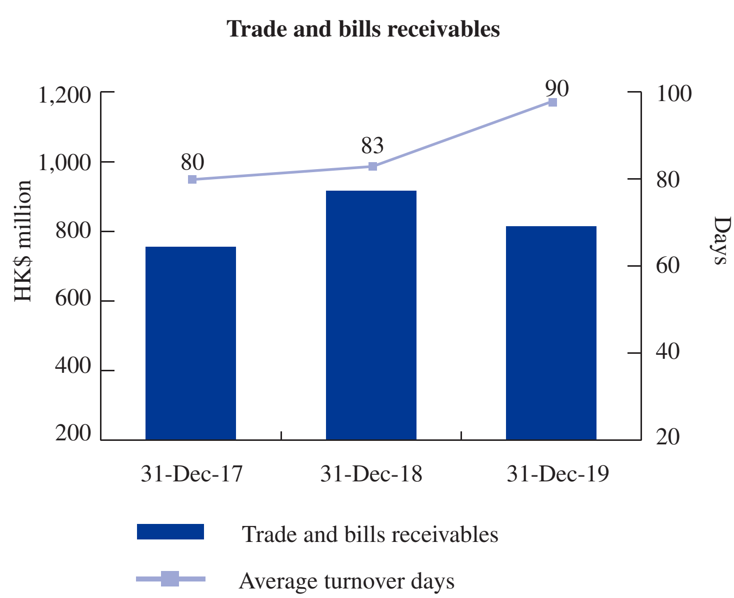
Working capital

	As at 31 December 2019 *HK$ million*	As at 31 December 2018 *HK$ million*
Inventories	**785.8**	738.4
Trade and bills receivables	**816.0**	919.5
Prepayments, deposits and other receivables	**76.3**	101.8
Trade payables	**(284.2)**	(388.2)
Other payables and accruals	**(259.0)**	(310.0)
Deferred income	**(57.0)**	(59.0)
Defined benefit retirement plans obligation	**(67.8)**	(61.0)
Total working capital	**1,010.1**	941.5

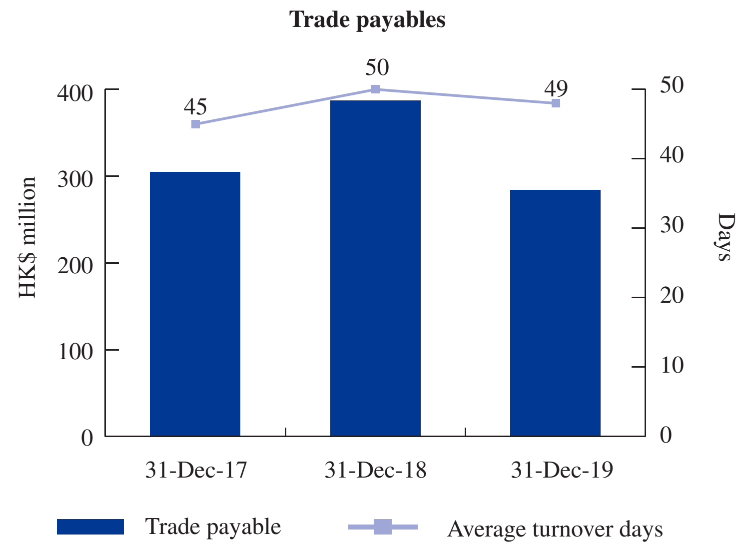
Inventories increased HK$47.4 million to HK$785.8 million as of 31 December 2019 (31 December 2018: HK$738.4 million) mainly due to increased level of finished goods as we returned to normal stock holding level in our warehouses. Inventory turnover days increased from 105 days as at 31 December 2018 to 118 days as at 31 December 2019 mainly due to higher finished goods inventory attained.



Trade and bills receivables decreased HK$103.5 million to HK$816.0 million as of 31 December 2019 (as at 31 December 2018: HK$919.5 million) mainly due to the Group's additional effort made on the collection of outstanding trade receivables and lower sales in 2019. Trade and bills receivables turnover days increased from 83 days as at 31 December 2018 to 90 days as at 31 December 2019, mainly due to additional settlement time required by certain customers of the Group. Despite of an increase in the provision made on trade receivables during the year, the management of the Group are of the view that the Group's receivables are of high quality and the Group has not encountered any material default payment from customers. Current receivables and overdue balances of less than 30 days are maintained at 88.5% of the balance of the gross trade and bills receivables.



Trade payables decreased HK$104.0 million to HK$284.2 million as of 31 December 2019 (as at 31 December 2018: HK$388.2 million). The decrease was mainly due to the reduction of overdue payable balances and lower purchases in 2019. Trade payable turnover days as at 31 December 2019 slightly decreased to 49 days as compared to 50 days as at 31 December 2018.



Net profit and EBITDA

Profit attributable to shareholders of the Company for the year ended 31 December 2019 was HK$538.8 million, representing an increase of 31.5%, as compared to HK$409.6 million in last year. Adjusted profit attributable to equity holders of the Company was HK$575.7 million, representing a 6.9% decrease as compared with last year. For the year ended 31 December 2019, the Group's EBITDA was HK$1,082.8 million, representing an increase of 13.7% as compared to HK$952.6 million in last year. The Group's EBITDA margin was 29.7% for the year ended 31 December 2019 as compared to 25.4% in last year. Excluding one-off expenses, the Group's adjusted EBITDA margin was 30.3%, slightly 0.2% lower than 30.5% from last year.

Financial resources and liquidity

As at 31 December 2019, the total assets of the Group increased by 7.1% to HK$5,964.2 million and total shareholders' equity increased by 50.0% to HK$4,027.0 million as compared to the amount as at 31 December 2018. The increase was mainly due to the receipt of the net proceeds from the listing of the Company ("**Global Offering**" or "**IPO**") and the profit retained during the year ended 31 December 2019. The Group's current ratio as at 31 December 2019 was 1.77, as compared to 1.06 as at 31 December 2018. The change in current ratio was primarily due to the increase in bank balances arising from the proceeds of the Global Offering and repayment of bank loans.

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 spending and product development cost. Prior to the Global Offering, the Group's working capital requirements were satisfied by way of internal financial resources and bank borrowings. The Group had positive total cash flow for the year ended 31 December 2019. The funds generated from operations and cash on hand were adequate to fund the liquidity and capital requirements.

The Group will continue to adopt prudent financial management and treasury policy following the listing. To the extent that there is any surplus cash which has yet to be used for the designated purposes, the Group would 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	
	2019	2018
	HK$ million	*HK$ million*
Cash generated from:		
Operating activities	**974.1**	777.6
Investing activities	**(573.5)**	(588.5)
Financing activities	**(62.8)**	(187.3)
Net movement in cash	**337.8**	1.8

Cash flows generated from operating activities was HK$974.1 million, an increase of HK$196.5 million compared to HK$777.6 million in last year. The increase in cash flows from operating activities was mainly due to a better management on working capital.

Cash flows used in investing activities was HK$573.5 million, a decrease of HK$15.0 million compared to HK$588.5 million in last year. The major items on investment activities were payment for capital expenditure which included purchases of machinery, equipment, tooling and infrastructure. Included in the capital expenditure was an amount of HK$203.7 million which was funded from the proceeds of the Global Offering.

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

	Year ended 31 December	
	2019	2018
	HK$ million	*HK$ million*
Payment of property, plant and equipment	**(458.7)**	(490.8)
Payment for deferred expenses	**(70.7)**	(76.1)
Acquisition of subsidiaries, net	**(4.6)**	(26.8)
Increase in restricted deposits	**(56.6)**	–
Others	**17.1**	5.2
Net cash used in investing activities	**(573.5)**	(588.5)

Cash flows used in financing activities was HK$62.8 million, compared to HK$187.3 million in last year. The decrease in cash flows used in financing activities during the year was mainly due to the receipt of the net proceeds from the Global Offering which resulted in a lower net debt balances.

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

	Year ended 31 December	
	2019	2018
	HK$ million	*HK$ million*
Proceeds from the Global Offering	**1,149.9**	–
Issuance expenses paid	**(75.1)**	–
Proceeds from bank loans	**1,637.7**	1,266.0
Repayment of bank loans	**(2,453.3)**	(1,234.4)
Interest paid	**(73.6)**	(84.2)
Dividend paid	**(177.7)**	(100.5)
Lease rental paid	**(70.7)**	(34.2)
Net cash used in financing activities	**(62.8)**	(187.3)

Indebtedness

As at 31 December 2019, the Group's total borrowings was HK$1,082.2 million, a decrease of HK$848.1 million from HK$1,930.3 million as at 31 December 2018.

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 2019	As at 31 December 2018
	HK$ million	*HK$ million*
Current bank loans	**614.4**	1,095.8
Non-current bank loans	**363.0**	698.5
Current lease liabilities	**70.0**	59.4
Non-current lease liabilities	**34.8**	76.6
Total borrowings	**1,082.2**	1,930.3

Details of the bank loans of the Group as at 31 December 2019 are set out in note 22 to the consolidated financial statements.

As at 31 December 2019, the Group had total banking facilities available for draw-down of HK$1,088.8 million.

The Group's net gearing ratio as at 31 December 2019 was 12.6% (as at 31 December 2018: 63.1%). This ratio is based on total borrowings less cash and cash equivalents and pledged deposits divided by total equity. The gearing level of the Group has decreased significantly during the year mainly due to the net proceeds received from the Global Offering. Total equity increased as a result of profit growth and new shares issued upon the completion of the Global Offering while a majority of the designated amount of bank borrowings were repaid as stipulated in the Prospectus.

Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditures. The Group incurred capital expenditures of HK$457.9 million for the year ended 31 December 2019 which was primarily used in the production capacity expansion in our PRC plants, as well as the infrastructure spending for the new plants in Mexico. Among which, the Group incurred HK$104.1 million for the development of new plants in Mexico, including the acquisition costs for two adjacent parcels of land in San Luis Potosi, Mexico with an aggregate total site area of 227,474 sq.m. and related infrastructure and construction costs. Such capital expenditures were partially funded by the net proceeds from the Global Offering. Currently, we plan to complete the construction of the precision machining and sand casting plants in different stages by the end of 2020. We will review the end-markets demand, marcoeconomic development as well as the global geopolitical tension to determine the pace of development of other plants in Mexico in coming years. In 2019, we also incurred capital expenditure of HK$126.7 million to further expand the capacity of our plant 3 in China to meet soaring demand from aerospace and medical end-markets. Capital commitments contracted for but not incurred by the Group as at 31 December 2019 amounted to HK$225.4 million, which were mainly related to plants construction and acquisition of machinery.

Pledge of Assets

Certain property, plant and equipment, inventories and trade receivables of the Group amounted to HK$15.6 million (as at 31 December 2018: HK$694.4 million) and bank deposits of HK$4.8 million (as at 31 December 2018: HK$2.2 million) were pledged as security for bank borrowings/ facilities as at 31 December 2019.

Contingent Liabilities

As at 31 December 2019, the Group had the following contingent liabilities:

(a) On 24 September 2011, a fire accident was incurred on the plant of Nantong Shenhai Industrial Technology Co., Ltd. ("**Shenhai Industrial**"). Shenhai Industrial claimed the damages from the fire accident for compensation from an insurance company incorporated in the PRC (the "**Insurer**"). On 12 May 2015, the Supreme People's Court of the PRC gave its judgement tribunal that the Insurer was required to settle the claimed insurance indemnities and overdue interest of RMB59,089,000 (equivalent to approximately HK$74,748,000). The Group received the settlements on 17 June 2015 and recorded such insurance claims as other net income during the year ended 31 December 2015. The Insurer counter appealed against such tribunal to the Supreme People's Procuratorate of the PRC in 2016. As of the date of this announcement, the Supreme People's Procuratorate of the PRC is in the process of obtaining and reviewing the documents and has not lodged the counter appeal. The Group is of the opinion that the likelihood that the counter appeal may be established is remote. Therefore, no provision has been made in respect of this pending counter appeal.

(b) Shenhai Industrial received arbitration notice that on 8 October 2018 the former shareholders of Shenhai Group was sued by the law firm, which had received the Dissenting Payments of RMB8,000,000 in respect of the overdue legal fee incurred for the lawsuits related to Shenhai Industrial's fire accident insurance. The law firm requested the former controlling shareholder of Shenhai Group to settle the overdue legal fee amounting to RMB13,000,000 excluding the Dissenting Payments of RMB8,000,000 and related arbitration expenses, whereas Shenhai Industrial was requested to undertake a jointly liability. The arbitrator considered the case is linked to the Group's appeal against the law firm on 8 January 2019, of which the court decision in favor of the Group's claim was made on 12 November 2019. However, the law firm further appealed to the court. As of the date of this announcement, the arbitration has been suspended as the result of the law firm's appeal may directly affect the final result of the arbitration. The Group is of the opinion that the likelihood that the legal fee needs to be paid by the Group is remote. Therefore, no provision has been made in respect of this matter.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the Company's Prospectus dated 18 June 2019 issued for the Global Offering, the Group did not have other future plans for material investments or capital assets.

Material Acquisitions and Disposal of Subsidiaries

There was no material acquisition and disposal of subsidiaries during the year ended 31 December 2019.

Significant Investments

As at 31 December 2019, the Group did not have any significant investment plans.

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 US Dollar, Euro and Renminbi while most of the cost of sales was denominated in Renminbi, Turkish Lira and Euro. As a result, exchange rate fluctuations between the above-mentioned foreign currencies and HKD could affect the Group's performance and asset value in the reporting currency of HKD.

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 sales currency proportion with a view to reducing the impact of exchange rate fluctuations. As at 31 December 2019, the borrowings of the Group were denominated in HKD, USD, RMB and Euro, while the cash and cash equivalents were denominated in USD, HKD and RMB in which, HK$325.0 million of borrowings were at fixed interest rates.

The Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations. During the year ended 31 December 2019, the Group did not use any financial instrument for hedging purpose.

Employees and Remuneration Policy

As at 31 December 2019, the Group had about 7,125 full-time employees of whom 6,012 were based in Mainland China and 1,113 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$965.0 million for the year ended 31 December 2019 (2018: HK$948.0 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.

Use of Proceeds from the Global Offering

The Company completed the Global Offering on 28 June 2019 with the Over-allotment Option (as defined in the Prospectus) exercised in full on 19 July 2019. The amount of the net proceeds received from the Global Offering (including the full exercise of the Over-allotment Option) after deducting underwriting fees and commissions and other expenses in connection with the Global Offering was HK$1,031.5 million (the "Actual Amount of the Net Proceeds"), which is more than the estimated amount set for in the Prospectus. Thus, the Company applied the Actual Amount of the Net Proceeds on the use of proceeds plan as stated in the Prospectus for the period from 1 July 2019 to 31 December 2020 on a pro rata basis except for repayment of interest bearing bank borrowings.

The table below sets forth the use of the net proceeds from the Global Offering for the year ended 31 December 2019:

Business strategies as set out in the Prospectus	**Actual amount of the Net Proceeds**	**Actual use of the net proceeds**	**Unutilised proceeds**
	HK$ million	*HK$ million*	*HK$ million*
Capital expenditures for production capacity expansion	437.9	203.7	234.2
Repayment of interest-bearing bank borrowings	271.1	251.6	19.5
Acquisition of businesses	219.0	–	219.0
Working capital and general corporate purpose	103.5	103.5	–
Total	1,031.5	558.8	472.7

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019

	Note	**2019**	2018
		HK$'000	*HK$'000*
			(Note)
Revenue	3	**3,640,170**	3,749,113
Cost of sales		**(2,508,654)**	(2,541,346)
Gross profit		**1,131,516**	1,207,767
Other revenue	4	**23,419**	36,862
Other net income/(loss)	4	**5,520**	(160,203)
Selling and distribution expenses		**(160,604)**	(162,254)
Administrative and other operating expenses		**(303,347)**	(347,740)
Profit from operations		**696,504**	574,432
Net finance costs	5	**(57,974)**	(87,050)
Profit before taxation	6	**638,530**	487,382
Income tax	7	**(99,490)**	(75,911)
Profit for the year		**539,040**	411,471
Attributable to:			
Equity shareholders of the Company		**538,856**	409,603
Non-controlling interest		**184**	1,868
Profit for the year		**539,040**	411,471
Earnings per share	9		
Basic (HK$)		**0.318**	0.273
Diluted (HK$)		**0.317**	0.273

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000 (Note)
Profit for the year	**539,040**	411,471
Other comprehensive income for the year (after tax adjustments)		
Items that will not be reclassified to profit or loss:		
Effect of remeasurement of defined benefit retirement plans obligation	**(7,387)**	(442)
Equity investments at fair value through other comprehensive income-net movement in fair value reserve (non-recycling)	**(571)**	–
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	**(88,517)**	(155,423)
Other comprehensive income for the year	**(96,475)**	(155,865)
Total comprehensive income for the year	**442,565**	255,606
Attributable to:		
Equity shareholders of the Company	**442,608**	254,178
Non-controlling interest	**(43)**	1,428
Total comprehensive income for the year	**442,565**	255,606

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	**2019** *HK$'000*	2018 *HK$'000* *(Note)*
Non-current assets			
Property, plant and equipment		**2,884,594**	2,761,648
Prepayments for purchase of property, plant and equipment		**57,071**	69,449
Intangible assets		**69,729**	85,504
Goodwill		**446,440**	457,312
Deferred expenses		**163,249**	166,512
Other financial asset		**1,572**	2,283
Deferred tax assets		**32,316**	22,635
		3,654,971	3,565,343
Current assets			
Inventories		**785,812**	738,430
Trade and bills receivables	10	**815,987**	919,458
Prepayments, deposits and other receivables		**76,313**	101,779
Taxation recoverable		**768**	5,239
Restricted deposits		**56,623**	–
Pledged deposits		**4,803**	2,195
Cash and cash equivalents		**568,965**	235,543
		2,309,271	2,002,644
Current liabilities			
Bank loans		**614,398**	1,095,777
Lease liabilities		**70,033**	59,444
Trade payables	11	**284,215**	388,193
Other payables and accruals		**258,980**	309,960
Taxation payable		**73,998**	38,328
		1,301,624	1,891,702
Net current assets		**1,007,647**	110,942
Total assets less current liabilities		**4,662,618**	3,676,285

	2019	2018
	HK$'000	*HK$'000*
		(Note)
Non-current liabilities		
Bank loans	**363,007**	698,520
Lease liabilities	**34,822**	76,575
Deferred income	**56,999**	59,034
Defined benefit retirement plans obligation	**67,854**	60,977
Deferred tax liabilities	**112,979**	97,000
	635,661	992,106
NET ASSETS	**4,026,957**	2,684,179
CAPITAL AND RESERVES		
Share capital	**188,330**	128
Reserves	**3,823,656**	2,669,037
Total equity attributable to equity shareholders of the Company	**4,011,986**	2,669,165
Non-controlling interest	**14,971**	15,014
TOTAL EQUITY	**4,026,957**	2,684,179

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

NOTES

1 GENERAL INFORMATION AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Impro Precision Industries Limited (the "Company") was incorporated in Cayman Islands on January 8, 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

The Company was listed on the Main Board of the Stock Exchange on 28 June 2019.

The Company is an investment holding company. The Company and its subsidiaries (together, "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.

The consolidated financial statements are presented in HK dollars, unless otherwise stated and have approved for issue by the Board of Directors on 12 March 2020. They have been prepared in accordance with all applicable International Financial Reporting Standard ("IFRS") using the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value. These consolidated 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 ("the Stock Exchange").

The financial information relating to the financial year ended 31 December 2019 that is included in this preliminary annual results announcement does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have 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.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

The following table summarizes the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *HK$'000*	Capitalisation of operating lease contracts *HK$'000*	Carrying amount at 1 January 2019 *HK$'000*
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment	2,761,648	21,734	2,783,382
Total non-current assets	**3,565,343**	**21,734**	**3,587,077**
Lease liabilities (current)	59,444	4,787	64,231
Current liabilities	**1,891,702**	**4,787**	**1,896,489**
Net current assets	**110,942**	**(4,787)**	**106,155**
Total assets less current liabilities	**3,676,285**	**16,947**	**3,693,232**
Lease liabilities (non-current)	76,575	18,030	94,605
Total non-current liabilities	**992,106**	**18,030**	**1,010,136**
Net assets	**2,684,179**	**(1,083)**	**2,683,096**

Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. This does not result in a material impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the consolidated cash flow statement, the Group as a lessee is required to split rentals paid under capitalized leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated cash flow statement.

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognized under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for the year ended 31 December 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	Year ended 31 December 2019				2018
	Amounts reported under IFRS 16 (A)	**Add back: IFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note (i)) (C)**	**Hypothetical amounts for 2019 as if under IAS 17 (D=A+B+C)**	Compared to amounts reported for 2018 under IAS 17
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Financial result for the year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**696,504**	**8,042**	**(9,030)**	**695,516**	574,432
Net finance costs	**(57,974)**	**1,084**	**–**	**(56,890)**	(87,050)
Profit before taxation	**638,530**	**9,126**	**(9,030)**	**638,626**	487,382
Profit for the year	**539,040**	**9,126**	**(9,030)**	**539,136**	411,471
Reportable segment profit for the year ended 31 December 2019 impacted by the adoption of IFRS 16:					
– Investment casting	**515,314**	**–**	**(3,510)**	**511,804**	466,053
– Precision machining	**285,962**	**–**	**(3,115)**	**282,847**	359,330
– Sand casting	**193,819**	**–**	**(1,718)**	**192,101**	205,350
– Surface treatment	**114,753**	**–**	**(687)**	**114,066**	122,841
	1,109,848	**–**	**(9,030)**	**1,100,818**	1,153,574

	Year ended 31 December 2019			2018
	Amounts reported under IFRS 16 (A)	**Estimated amounts related to operating leases as if under IAS 17 (Notes (i) & (ii)) (B)**	**Hypothetical amounts for 2019 as if under IAS 17 (C=A+B)**	Compared to amounts reported for 2018 under IAS 17
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	**1,022,504**	**(9,030)**	**1,013,474**	870,544
Net cash generated from operating activities	**974,100**	**(9,030)**	**965,070**	777,585
Capital element of lease rentals paid	**(65,362)**	**7,946**	**(57,416)**	(28,837)
Interest element of lease rentals paid	**(5,384)**	**1,084**	**(4,300)**	(5,407)
Net cash generated from/(used in) financing activities	**(62,828)**	**9,030**	**(53,798)**	(187,340)

Note:

(i) The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

(ii) In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

3 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	
	2019	2018
	HK$'000	*HK$'000*
Investment casting	**1,682,214**	1,581,166
Precision machining	**1,118,650**	1,215,210
Sand casting	**564,467**	601,842
Surface treatment	**274,839**	350,895
	3,640,170	3,749,113

The Group had transactions with two customers exceeding 10% individually of its total revenue for the year ended 31 December 2019 (2018: two).

The total revenue from the sales of investment casting, precision machining and sand casting products to these customers amounted to HK$852,269,000 (2018: HK$981,587,000) for the year ended 31 December 2019, and arose in all three geographical regions.

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

As at 31 December 2019, the Group has applied the practical expedient in paragraph 121 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.

(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 individually mentioned 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 engine parts, automotive parts, marine parts and aerospace parts.

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

- 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 engine parts, marine parts, hydraulic equipment parts and construction equipment parts.

- Surface treatment: It primarily contains surface treatment services including plating, anodizing, painting and coating.

(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, pledged deposits, restricted deposits, 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.

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 year is set out below:

	Year ended 31 December 2019				
	Investment casting	**Precision machining**	**Sand casting**	**Surface treatment**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue from external customers	**1,682,214**	**1,118,650**	**564,467**	**274,839**	**3,640,170**
Inter-segment revenue	**–**	**–**	**–**	**24,645**	**24,645**
Reportable segment revenue	**1,682,214**	**1,118,650**	**564,467**	**299,484**	**3,664,815**
Gross profit from external customers	**555,873**	**305,063**	**184,020**	**86,560**	**1,131,516**
Inter-segment gross profit	**–**	**–**	**–**	**10,703**	**10,703**
Reportable segment gross profit	**555,873**	**305,063**	**184,020**	**97,263**	**1,142,219**
Depreciation and amortization	**147,409**	**116,674**	**73,289**	**48,909**	**386,281**
Reportable segment profit	**515,314**	**285,962**	**193,819**	**114,753**	**1,109,848**
Reportable segment assets	**1,987,112**	**1,753,974**	**802,645**	**758,701**	**5,302,432**

	Year ended 31 December 2018				
	Investment casting	Precision machining	Sand casting	Surface treatment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	1,581,166	1,215,210	601,842	350,895	3,749,113
Inter-segment revenue	–	–	–	27,516	27,516
Reportable segment revenue	1,581,166	1,215,210	601,842	378,411	3,776,629
Gross profit from external customers	516,341	387,803	198,703	104,920	1,207,767
Inter-segment gross profit	–	–	–	11,799	11,799
Reportable segment gross profit	516,341	387,803	198,703	116,719	1,219,566
Depreciation and amortization	141,140	113,179	75,664	48,232	378,215
Reportable segment profit	466,052	359,330	205,350	122,841	1,153,573
Reportable segment assets	1,895,432	1,784,845	807,277	819,899	5,307,453

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

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
		(Note)
Revenue		
Reportable segment revenue	**3,664,815**	3,776,629
Elimination of inter-segment revenue	**(24,645)**	(27,516)
Consolidated revenue	**3,640,170**	3,749,113
Gross profit		
Reportable segment gross profit	**1,142,219**	1,219,566
Elimination of inter-segment gross profit	**(10,703)**	(11,799)
Consolidated gross profit	**1,131,516**	1,207,767
Profit		
Reportable segment profit	**1,109,848**	1,153,573
Elimination of inter-segment profit	**(10,703)**	(11,799)
Reportable segment profit derived from Group's external customers	**1,099,145**	1,141,774
Other revenue	**23,419**	36,862
Other net income/(loss)	**5,520**	(160,203)
Listing expenses	**(18,700)**	(48,000)
Unallocated head office and corporate expenses	**(26,599)**	(17,786)
Consolidated profit before interest, taxes, depreciation and amortization	**1,082,785**	952,647
Net finance costs	**(57,974)**	(87,050)
Depreciation and amortization	**(386,281)**	(378,215)
Consolidated profit before taxation	**638,530**	487,382

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
		(Note)
Assets		
Reportable segment assets	**5,302,432**	5,307,453
Elimination of inter-segment receivables	**(7,198)**	(7,442)
	5,295,234	5,300,011
Other financial asset	**1,572**	2,283
Deferred tax assets	**32,316**	22,635
Pledged deposits	**4,803**	2,195
Restricted deposits	**56,623**	–
Cash and cash equivalents	**568,965**	235,543
Unallocated head office and corporate assets	**4,729**	5,320
Consolidated total assets	**5,964,242**	5,567,987

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

(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.

Revenue from external customers

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Americas		
– United states	**1,480,255**	1,486,498
– Others	**112,256**	88,574
Europe	**1,197,368**	1,222,419
Asia		
– The PRC	**769,222**	859,470
– Others	**81,069**	92,152
	3,640,170	3,749,113

Specified non-current assets

	At 31 December	
	2019	2018
	HK$'000	*HK$'000*
		(Note)
United States	**14,774**	2,289
Europe	**849,811**	898,643
The PRC	**2,580,143**	2,582,006
Mexico	**177,927**	59,770
	3,622,655	3,542,708

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

4 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Rental income (Note i)	**579**	3,291
Government subsidies (Note ii)	**18,386**	30,128
Others	**4,454**	3,443
	23,419	36,862

Notes:

(i) As at 31 December 2019, the total minimum lease receivables under irrevocable operating leases agreements in the future amounted to HK$990,000 (2018: HK$1,438,000).

(ii) During the year ended 31 December 2019, the Group received unconditional government subsidies of HK$15,416,000, (2018: HK$27,189,000) as encouragement of their contribution in technology development, environment protection and contribution in local economy.

During the year ended 31 December 2019, the Group received conditional government subsidies of HK$2,177,000 (2018: HK$ nil) as subsidies for acquisition of machinery of the Group's PRC subsidiaries. During the year ended 31 December 2019, the Group recognized such subsidies of HK$2,970,000 (2018: HK$2,939,000) for acquisition of machinery and leasehold land in the profit or loss when related conditions were satisfied.

(b) Other net income/(loss)

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Net exchange gain/(loss)	**8,722**	(17,859)
Net (loss)/gain on disposal of property, plant and equipment	**(2,552)**	504
Impairment loss of goodwill	**–**	(141,178)
Others	**(650)**	(1,670)
	5,520	(160,203)

5 NET FINANCE COSTS

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
		(Note)
Interest income	**(13,843)**	(839)
Interest expenses on bank loans	**70,053**	86,317
Interest expenses on lease liabilities	**5,384**	5,407
Less: borrowing costs capitalized as construction in progress (Note ii)	**(3,620)**	(3,835)
	71,817	87,889
Net finance costs	**57,974**	87,050

Note:

(i) The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

(ii) The borrowing costs have been capitalized at a rate of 4.36% to 4.79% per annum (2018: 4.40% to 5.23%)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Salaries, wages and other benefits	**828,439**	816,215
Contributions to defined contribution retirement plans	**127,099**	127,566
Expenses recognized in respect of defined benefit retirement plans obligation	**5,207**	4,233
Equity-settled shared-based payment expenses	**4,221**	–
	964,966	948,014

(b) Other items

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Cost of inventories recognized as expenses (Note i)	**2,508,654**	2,541,346
Depreciation charges		
– owned property, plant and equipment	**275,702**	248,772
– right-of-use assets	**26,510**	28,962
Amortization of intangible assets	**13,784**	14,461
Amortization of deferred expenses	**70,285**	86,020
Research and development expenses	**107,330**	101,818
Total minimum lease payments for leases previously classified as operating leases under IAS 17	**–**	13,230
Impairment loss of goodwill	**–**	141,178
Provision for impairment loss on trade and other receivables	**2,520**	20,722
Provision for write-down of inventories	**7,293**	2,868
Listing expenses	**18,700**	48,000
Auditors' remuneration		
– Audit services	**4,877**	3,093
– Non-audit services (Note ii)	**2,495**	7,999

Note:

(i) 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.

(ii) During the year ended 31 December 2019, the Group recognized auditors' remuneration for non-audit services in respect of initial public offering of HK$2,230,000 (2018: HK$7,773,000), which is also included in the listing expenses disclosed separately above.

7 INCOME TAX

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the year (2018: 16.5%).

Income tax for the PRC operations is charged at the statutory rate of 25% of the assessable profits under tax rules and regulations in the PRC. Certain PRC subsidiaries are subject to a preferential income tax of 15% under the relevant tax rules and regulations.

Taxation in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

Income tax in the consolidated statements of profit or loss represents

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Current tax		
PRC Corporate Income Tax		
Provision for the year	**50,043**	60,375
Over-provision in respect of prior years	**(10,013)**	(4,274)
	40,030	56,101
Hong Kong Profits Tax		
Provision for the year	**40,795**	31,738
Over-provision in respect of prior years	**(1,591)**	(1,672)
	39,204	30,066
Tax jurisdictions outside PRC and Hong Kong		
Provision for the year	**9,761**	13,680
	88,995	99,847
Deferred tax		
Origination and reversal of temporary differences	**10,495**	(23,936)
Total income tax expense	**99,490**	75,911

8 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company in respect of the year:

	At 31 December	
	2019	2018
	HK$'000	*HK$'000*
Interim dividend - HK$0.04 (2018: nil) per share	**75,332**	–
Final dividend proposed after the end of each reporting period of HK$0.032 (2018: HK$80.1) per share	**60,265**	102,400

The final dividend proposed after the end of each reporting period has not been recognized as a liability at the end of each reporting period.

(b) Dividends payable to equity shareholders of the Company in respect of the previous financial year, approved and paid during the year:

	At 31 December	
	2019	2018
	HK$'000	*HK$'000*
Dividend in respect of the previous financial year, approved and paid during the year, of HK$80.1 (2018: HK$78.6) per share	**102,400**	100,500

9 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$538,856,000 (2018: HK$409,603,000) and the weighted average of 1,693,496,630 ordinary shares (2018: 1,500,000,000 shares after adjusting for the capitalization issue in 2019) in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	2019	2018
	Number	*Number*
Issues ordinary shares at 1 January	**1,277,912**	1,277,912
Effect of capitalisation issue	**1,498,722,088**	1,498,722,088
Effect of shares issued under the Global Offering	**193,496,630**	–
Weighted average number of ordinary shares at 31 December	**1,693,496,630**	1,500,000,000

(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$538,856,000 (2018: HK$409,603,000) and the weighted average number of ordinary shares of 1,697,823,319 shares (2018: 1,500,000,000 shares after adjusting for the capitalization issue in 2019), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019	2018
	Number	*Number*
Weighted average number of ordinary shares at 31 December	**1,693,496,630**	1,500,000,000
Effect of deemed issue of shares under the Company's share option scheme	**4,326,689**	–
Weighted average number of ordinary shares at 31 December	**1,697,823,319**	1,500,000,000

10 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**766,544**	854,844
Bills receivable	**79,091**	87,162
	845,635	942,006
Less: loss allowance	**(29,648)**	(22,548)
	815,987	919,458

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

The bills receivables held by the Group are achieved by both collecting contractual cash flows and selling financial assets, which are measured at fair value through other comprehensive income.

As at 31 December 2019, no trade receivables (2018: HK$249,231,000) were pledged to secure certain bank facilities with commercial banks.

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	
	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**407,826**	460,082
1 to 3 months	**344,767**	386,943
Over 3 months but within 12 months	**63,394**	72,433
	815,987	919,458

Trade and bills receivables are due within 15-120 days from the date of billing.

11 TRADE PAYABLES

	At 31 December	
	2019	2018
	HK$'000	*HK$'000*
Trade payables	**284,215**	388,193

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	
	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**217,106**	275,294
1 to 3 months	**60,613**	101,193
Over 3 months	**6,496**	11,706
	284,215	388,193

CORPORATE GOVERNANCE FRAMEWORK

The Company believes that good corporate governance can enhance its overall effectiveness, and thus create additional value for our shareholders. The Company is committed to maintaining high standards and has applied the Principles that are set out in the Corporate Governance Code and Corporate Governance Report ("**CG Code**") as set out in Appendix 14 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.

The Company has adopted the principles and code provisions of the CG Code as the basis of the Company's corporate governance practices with effect from the Listing Date.

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 throughout the period from the Listing Date to 31 December 2019, except for the deviation from code provision A.2.1 of the CG Code as described below.

Under code provision A.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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set forth in Appendix 10 The Rules Governing to the Listing of the Stock Exchange (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 throughout the period from the Listing Date to 31 December 2019.

FINAL DIVIDEND

The Board has proposed to pay a final dividend of 3.2 HK cents per share, resulting a full year dividend of 7.2 HK cents per share for the year ended 31 December 2019, payable to the Shareholders whose name appear on the register of members of the Company on Wednesday, 20 May 2020. Subject to approval by the Shareholders of the Company at the annual general meeting to be held on Tuesday, 12 May 2020 (the "**AGM**"), the final dividend will be paid to the Shareholders on or about Friday, 29 May 2020.

CLOSING REGISTER OF SHAREHOLDERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING AND TO FINAL DIVIDEND

The forthcoming AGM will be held on Tuesday, 12 May 2020. 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 Thursday, 7 May 2020 to Tuesday, 12 May 2020, 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 Wednesday, 6 May 2020.

For the purpose of ascertaining Shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 18 May 2020 to Wednesday, 20 May 2020, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, 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 4:30p.m. on Friday, 15 May 2020.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the full exercise of the Over-allotment Option on 19 July 2019 (as set forth in the paragraphs under "Full Exercise of the Over-allotment Option" as disclosed in the announcements of the Company dated 22 July 2019 and 24 July 2019), 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 period from the Listing Date to 31 December 2019.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Company's auditor, KPMG, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Boards and consequently no assurance has been expressed by the auditor.

AUDIT COMMITTEE

The Board has established an audit committee (the "**Audit Committee**") since 15 June 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. Members of the Audit Committee are three independent non-executive Directors, namely, Mr. YU Kwok Kuen Harry, Dr. YEN Gordon and Mr. LEE Siu Ming. Mr. YU Kwok Kuen Harry currently serves as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are making recommendation to the Board on the appointment and removal of external auditors, reviewing draft financial statements of the Group, attending any material advices or matters in financial reporting or otherwise arising from the audit process and overseeing the risk management policies and internal control procedures of the Group.

The Company's consolidated financial statements for the year ended 31 December 2019 have been reviewed by the Audit Committee. The Audit Committee is of the view that the consolidated financial statements of the Company for the year ended 31 December 2019 comply with the applicable accounting standards and the disclosure requirements under the applicable laws and regulations, including the Listing Rules, and that adequate disclosures have been made.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.improprecision.com) and the Stock Exchange (www.hkexnews.hk). The 2019 annual report containing all the information required by the Listing Rules will be published on the websites of the Company and the Stock Exchange and dispatched to the Shareholders in due course.

By order of the Board
IMPRO PRECISION INDUSTRIES LIMITED
LU Ruibo
Chairman and Chief Executive Officer

Hong Kong, 12 March 2020

As of the date of this announcement, the Board comprises five executive Directors, namely Mr. LU Ruibo, Ms. WANG Hui, Ina, Mr. YU Yuepeng, Ms. ZHU Liwei and Mr. WANG Dong and three independent non-executive Directors, namely Mr. YU Kwok Kuen Harry, Dr. YEN Gordon and Mr. LEE Siu Ming.