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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01286)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- Revenue decreased to HK$1,368.6 million – a decrease of 28.4% as compared to the last corresponding period, and in terms of local currencies, a decrease of 26.2% as compared to the last corresponding period
- Gross profit decreased to HK$365.9 million and gross profit margin was 26.7% (32.0% in the last corresponding period)
- Impairment charge against goodwill and other assets of HK$445.2 million was recognised in current period (nil in the last corresponding period)
- Adjusted EBITDA decreased to HK$409.8 million and adjusted EBITDA margin was 29.9% (31.8% in the last corresponding period)
- Adjusted net profit attributable to shareholders decreased to HK$182.9 million – a decrease of 44.3% as compared to the last corresponding period
- Adjusted basic earnings per share was 9.7 HK cents – a decrease of 55.5% as compared to the last corresponding period
- Net gearing ratio decreased to 9.6% as of 30 June 2020 (12.6% as of 31 December 2019)
- Free cash flow increased by 58.1% to HK$284.8 million during the six months ended 30 June 2020 compared to last corresponding period
- Interim cash dividend is 2.4 HK cents per share (2019 interim: 4.0 HK cents per share)

CHAIRMAN'S STATEMENT

Dear Shareholders

I am pleased to report the interim results of Impro Precision Industries Limited (the "Company" together with its subsidiaries, the "Group" or "Impro Precision") for the six months ended 30 June 2020.

During the six months ended 30 June 2020, the revenue of Impro Precision amounted to HK$1,368.6 million, representing a decrease of 28.4%, as compared to HK$1,911.1 million for the six months ended 30 June 2019. Loss attributable to shareholders of the Company (the "Shareholders") amounted to HK$269.8 million, primarily due to impairment charge of HK$445.2 million for goodwill and other assets. Excluding the impairment charge and other adjustment items, the adjusted profit attributable to the shareholders amounted to HK$182.9 million, representing a decrease of 44.3%, as compared to HK$328.2 million for the six months ended 30 June 2019. During the six months ended 30 June 2020, adjusted basic earnings per share amounted to 9.7 HK cents, representing a 55.5% decrease from the same period last year.

OVERVIEW OF OPERATING RESULTS

Since late January 2020, the outbreak of novel coronavirus ("COVID-19") epidemic in mainland China caused temporary production halt in our Group's plants there and production capacity was reduced in February 2020. All plants in mainland China have basically resumed normal production in early March 2020 but the COVID-19 epidemic continued to spread across Europe and the North American region starting from late February 2020. Since the beginning of March 2020, the majority of our customers in Europe and North America closed their factories to curb the spread of COVID-19 in varying degrees. As a result of the unprecedented measures, the revenue of our Group was severely affected.

Revenue by business segments

During the six months ended 30 June 2020, the Group recorded a period-on-period reduction of revenue for all business segments. Among them, revenue from the investment casting segment amounted to HK$661.1 million, representing a 23.4% decrease from the last corresponding period. Except for a minor revenue increase for investment castings applicable to the medical and hydraulic equipment end-markets, the sales in all the other end-markets recorded a period-on-period revenue decline. Revenue from the precision machining segment was HK$390.4 million, a decrease of 37.5% from the last corresponding period. Due to declining sales in the automotive end-market, compounded by the impact of the epidemic in Turkey, the sales decline in the precision machining segment was the most significant. Revenue from the sand casting segment was HK$216.7 million, a decrease of 26.9% from the last corresponding period, primarily because of decreasing demand in the end-markets for high horsepower engines and construction equipment. Revenue from surface treatment segment was HK$100.4 million, a decrease of 21.5% from the last corresponding period primarily due to sluggish sales in the passenger vehicle market of the PRC.

	Six months ended 30 June					
	2020		2019		Increase/(Decrease)	
By Business	***HK$ million***	***%***	*HK$ million*	*%*	*HK$ million*	*%*
Investment casting	**661.1**	**48.3%**	862.5	45.1%	(201.4)	-23.4%
Precision machining	**390.4**	**28.5%**	624.3	32.7%	(233.9)	-37.5%
Sand casting	**216.7**	**15.8%**	296.3	15.5%	(79.6)	-26.9%
Surface treatment	**100.4**	**7.4%**	128.0	6.7%	(27.6)	-21.5%
	1,368.6	**100.0%**	1,911.1	100.0%	(542.5)	-28.4%

In local currencies, the Group's revenue decreased by 26.2% as compared to the six months ended 30 June 2019. This decrease rate is lower than the reported revenue decline rate because of the depreciation of Renminbi ("RMB"), Euro dollar and US dollar against Hong Kong dollar during the six months ended 30 June 2020 by 4.9%, 3.2% and 1.0% respectively, as compared to the last corresponding period.

Revenue by end-markets

The Group sells its products to worldwide customers in a broad range of end-markets and the fluctuations in revenue are largely driven by changing demands in these end-markets. During the six months ended 30 June 2020, the Group saw only a minor growth in the medical end-market, while all its other segments experienced a period-on-period decline. Among them, the automotive market recorded a notably larger decrease in sales, and aerospace component sales, affected by the suspension of most passenger flights from March 2020, has experienced a drastic decline since the beginning of the second quarter of 2020.

	Six months ended 30 June					
	2020		2019		Increase/(Decrease)	
By End Market	***HK$ million***	***%***	*HK$ million*	*%*	*HK$ million*	*%*
Automotive	**596.7**	**43.6%**	**870.7**	**45.5%**	**(274.0)**	**-31.5%**
– Passenger Car	394.8	28.8%	572.9	30.0%	(178.1)	-31.1%
– Commercial Vehicle	201.9	14.8%	297.8	15.5%	(95.9)	-32.2%
Industrial & others	**614.9**	**44.9%**	**825.3**	**43.2%**	**(210.4)**	**-25.5%**
– High Horsepower Engine	142.5	10.4%	202.9	10.6%	(60.4)	-29.8%
– Hydraulic Equipment	109.6	8.0%	145.8	7.6%	(36.2)	-24.8%
– Construction Equipment	88.0	6.4%	122.2	6.4%	(34.2)	-28.0%
– Agricultural Equipment	82.5	6.0%	114.7	6.0%	(32.2)	-28.1%
– Recreational Boat and Vehicle	48.5	3.6%	64.2	3.4%	(15.7)	-24.5%
– Others	143.8	10.5%	175.5	9.2%	(31.7)	-18.1%
Aerospace & medical	**157.0**	**11.5%**	**215.1**	**11.3%**	**(58.1)**	**-27.0%**
– Aerospace	109.1	8.0%	168.3	8.8%	(59.2)	-35.2%
– Medical	47.9	3.5%	46.8	2.5%	1.1	2.4%
	1,368.6	100.0%	1,911.1	100.0%	(542.5)	-28.4%

Revenue by geographical market

The Group's revenue decline during the six months ended 30 June 2020 was primarily due to the global impact of COVID-19. Since the second quarter of 2020, the pandemic in the PRC region was brought under control, followed by an economic rebound that narrowed our sales decline on a period-on-period basis.

	Six months ended 30 June					
	2020		2019		Increase/(Decrease)	
By Geographical Market	***HK$ million***	**%**	*HK$ million*	%	*HK$ million*	%
Americas	**570.2**	**41.6%**	**835.0**	**43.7%**	**(264.8)**	**-31.7%**
– United States	528.6	38.6%	779.0	40.8%	(250.4)	-32.1%
– Others	41.6	3.0%	56.0	2.9%	(14.4)	-25.7%
Europe	**428.0**	**31.3%**	**648.7**	**33.9%**	**(220.7)**	**-34.0%**
Asia	**370.4**	**27.1%**	**427.4**	**22.4%**	**(57.0)**	**-13.3%**
– the PRC	344.4	25.2%	380.0	19.9%	(35.6)	-9.4%
– Others	26.0	1.9%	47.4	2.5%	(21.4)	-45.1%
	1,368.6	100.0%	1,911.1	100.0%	(542.5)	-28.4%

MARKET AND BUSINESS REVIEW

During the first half of 2020, revenue derived from the automotive end-market accounted for 43.6% of the Group's revenue. Affected by the continual spread of COVID-19 worldwide, the global automotive market is experiencing an unprecedented predicament. Even though the major automotive brands have launched promotions, overall consumer confidence remains weak and automotive sales can be challenging in the short term. According to data released by automotive manufacturers associations of various countries, the automotive sales volume fell in the first half of 2020. In this period, the automotive sales volume in the PRC, United States and Europe declined 16.9%, 23.1% and 39.5% respectively on a period-on-period basis. Yet, as the various economies are being restarted, with gradual introduction of stimulus measures to boost automotive sales in Mainland China, it is expected that overall automotive sales will pick up slowly in the second half of 2020, after bottoming out.

Benefiting from market segmentation and a focus on products of smaller consignments but wider variety, the industrial end-market, as one of the three end-markets served by the Group, saw a smaller revenue decline of 25.5% and accounted for 44.9% of the Group's revenue during the first half of 2020. The Group has continued to deepen improvements and adjustments within its own business scope. During the first half of 2020, the management formed a sales team dedicated to serving PRC customers, leveraging on the sustained upward sales trend in the PRC industrial end-market and with the anticipation of seizing a larger market share in the future.

Consumer demand in the medical and health industry worldwide has been spurred by the population ageing trend and the economic growth of developing nations. This, in turn, has bestowed the global medical device industry with a positive growth trend. During the first half of 2020, the Group's medical products turned out to be the only category in its product portfolio to see increased sales. Reforms of public health emergency management systems adopted by various nations have also reshaped the medical device industry to provide it with breakthrough opportunities and vast market potential. On the other hand, in the face of novel coronavirus, many countries and regions have imposed travel restrictions, which brought an unprecedented crisis to the aerospace industry, causing revenues to plunge in this end-market.

Facing the challenges of global pandemic and international trade, the Group paid close attention to changes in the macro environment of the precision components industry, continued to focus on products with high precision, highly complexity and critical performance, and provided one-stop solutions. We will continue to invest in research and development to improve our manufacturing process and operational efficiency, in order to capture opportunities of economic recovery in the post-pandemic world.

The Group will continue to implement the "Local for Local" strategy for localized development. We are constructing a new production base in San Luis Potosi, Mexico, on our wholly-owned land acquired in April 2019, to serve the needs of end-markets for automotive, engineering and agricultural equipment, high horsepower engines, hydraulic systems and aerospace. The phase one planning and construction work have progressed swiftly and in an orderly manner. Our precision machining and sand casting plants, which offer a building area of 53,000 sq. m., are in the medium and late construction phases and due to be completed before the end of 2020. More recently, we signed an agreement with a building contractor in Mexico to construct an investment casting plant with a building area of over 29,000 sq. m, which is targeted for completion by mid-2021. Total forecast capital expenditure for Mexico plants expansion in 2020 is approximately HK$440 million. Meanwhile, we have also commenced a preliminary design for an aerospace components plant and surface treatment plant. Featuring a building area of over 28,000 sq. m., this project may commence construction in the fourth quarter of 2020, with completion due before the end of 2021. More recently, our management team has started negotiations with a number of North American customers with a view to solicit potential new business opportunities. The management is now evaluating plans to build a production area for large sand casting parts with a building area of 19,000 sq. m.. Construction of the project may begin in the fourth quarter of 2020 or the first quarter of 2021.

With these facilities completed, our production base in Mexico will be equipped with a vertically-integrated plant where investment casting, precision machining, sand casting, surface treatment and aerospace component manufacturing can be carried out under one roof. At full capacity, Mexico phase one plants could generate approximately US$150 million revenue per annum. This new establishment will align the Group with the development strategies of its customers from North America, raise its production capacity in the region and mitigate potential supply-chain and tariff risks arising from geopolitical factors. The production base will be conducive to the Group's continual and long-term business expansion in the North American market.

Apart from capital expenditure for the new plants in Mexico, the Group also budgeted approximately HK$250 million capital expenditure in 2020 for the continuous improvements and automation of our existing production facilities in China, Turkey and Germany, and also in information technology systems like Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) systems.

In conclusion, during the first half of 2020, the difficulties faced by the end-markets under COVID-19 and challenging international trade environment were greater than expected, and the business development of global providers in components manufacturing and service was also affected. However, these end-markets were also presented with opportunities for industry integration. For this, the Group always pays attention to market trend and industry developments, continually implements a "Twin Growth Engine" strategy combining organic growth and strategic acquisitions and focuses on end-markets with higher profitability and stronger growth potential to ultimately realize a more balanced coverage in the automotive, industrial, aerospace and medical end-markets.

IMPAIRMENT OF GOODWILL AND OTHER ASSETS

Based on international accounting standards, the management team conducted a valuation of goodwill and other assets in the Group's balance sheet as at 30 June 2020.

The management believes that the high unemployment rate in the short-and-medium period, fuelled by COVID-19 globally, and the threat of a potential second or third novel coronavirus wave will, undermine consumers' confidence continually. While growth in demand is anticipated for the medium-and-long-term period, the global impact of the pandemic on two main plants acquired by the Group in 2014 that primarily serve the automotive market (a precision machining plant in Turkey and a surface treatment plant in Nantong, China) has been immediate. This requires us to review and redefine our future growth fundamentals, which results in a lower projected cash flow.

Considering these factors, the recoverable amount of the Group's goodwill and other assets based on forecasts is less than their book values. For this reason, the Group has made an impairment loss of goodwill and other assets amounting to HK$445.2 million in current period. The Group emphasises that the impairment charge will have no impact on its cashflow, operations, liquidity and compliance to debt covenants.

BUSINESS OUTLOOK

Up until now in 2020, the continuing spread of COVID-19 has undermined the global economy and rendered it fragile. Uncertainties in the global political and economic environment have given rise to enormous pressure weighing on the outlook of the global investment casting industry. Confronted by the worldwide economic crisis, our management has implemented a series of measures to control operating costs and capital expenditure, in order to reduce the Group's break-even point and ability to maintain financial liquidity.

Despite the uncertain economic outlook forecasted for the entire year of 2020, the Group remains cautiously optimistic about its overall business developments in the years ahead. During the six months ended 30 June 2020, the Group has co-developed with customers 653 new SKUs (stocking units) as compared to 505 new SKUs for the last corresponding period. As at 31 July 2020, the Group's total orders to be fulfilled in the next twelve months amounted to HK$2,008 million, which will provide strong support for the stable growth of our business in the future. The Group is accelerating construction of its production base in Mexico, which will greatly elevate its global supply capabilities, help continue its business expansion abroad, better mitigate potential supply chain and tariff risks from geopolitics and capture the opportunities of market recovery in North America.

Furthermore, the Group will continue to enforce the "Twin Growth Engine" strategy of organic growth and strategic acquisitions, one that has proven effective for propelling our expansion. We will also embrace opportunities for collaboration with different industries, reinforce our relationship with existing major customers and develop opportunities of partnership in our vision to become an industry leader and a trusted business partner. The Group also sets its sights on merger-and-acquisition opportunities, through which synergy can be generated with promising companies from the end-markets we serve. Due to the highly uncertain global economy, our management will practise conservatism and prudence in balancing risks, while maximizing returns for shareholders.

INTERIM DIVIDEND

Taking into consideration the profitability of the Group and the financial resources required for business expansion, the Board has resolved that an interim dividend of 2.4 HK cents per share for the six months ended 30 June 2020 (six months ended 30 June 2019: 4.0 HK cents per share).

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

LU Ruibo
Chairman and Chief Executive Officer

Hong Kong, 13 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	Six months ended 30 June		%
HK$ million	**2020**	2019	Change
Revenue	**1,368.6**	1,911.1	-28.4%
Gross profit	**365.9**	612.4	-40.3%
Gross profit margin	**26.7%**	32.0%	-5.3%
(Loss)/profit attributable to shareholders	**(269.8)**	300.2	-189.9%
Adjusted profit attributable to shareholders[1]	**182.9**	328.2	-44.3%
Basic earnings per share (HK cents)	**(14.3)**	19.9	-171.9%
Adjusted basic earnings per share (HK cents)	**9.7**	21.8	-55.5%
EBITDA[2]	**(35.4)**	588.8	-106.0%
EBITDA margin	**-2.6%**	30.8%	-33.4%
Adjusted EBITDA[3]	**409.8**	607.5	-32.5%
Adjusted EBITDA margin	**29.9%**	31.8%	-1.9%
Free cash inflow from operations[4]	**284.8**	180.1	58.1%

HK$ million	**As at 30 June 2020**	As at 31 December 2019	% Change
Cash and cash equivalent and pledged deposits	**563.3**	573.8	-1.8%
Total debt	**908.0**	1,082.3	-16.1%
Net debt (total debt less cash and cash equivalent and pledged deposits)	**344.7**	508.5	-32.2%
Total equity	**3,597.4**	4,027.0	-10.7%
Market capitalization[5]	**5,028.4**	6,026.5	-16.6%
Enterprise value[6]	**5,389.5**	6,550.0	-17.7%
Last twelve months ("L12M") adjusted EBITDA[3]	**903.8**	1,101.5	-17.9%

Key Financial Ratios

Adjusted return on equity	**11.3%**	17.2%
Enterprise value to L12M adjusted EBITDA[3]	**6.0**	5.9
Net debt to L12M adjusted EBITDA[3]	**0.4**	0.5
Net gearing ratio	**9.6%**	12.6%
Interest coverage ratio (adjusted for impairment loss of goodwill and other assets)	**10.0**	9.2

Notes:

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

	Six months ended 30 June	
	2020	2019
	HK$' million	*HK$' million*
(Loss)/profit for the period	**(268.3)**	300.4
Adjustments:		
– Impairment loss of goodwill and other assets, net of tax	**444.2**	–
– Listing expenses	**–**	18.7
– Amortization and depreciation related to purchase price allocation, net of tax	**8.6**	9.4
Adjusted profit for the period	**184.5**	328.5
Less: profit attributable to non-controlling interest	**(1.6)**	(0.3)
Adjusted profit attributable to shareholders of the Company	**182.9**	328.2

2 Earnings before interest, tax, depreciation and amortization.

3 Adjusted EBITDA represents EBITDA added back impairment loss of goodwill and other assets and listing expenses for the six months ended 30 June 2020 and 2019. Last twelve months ("L12M") adjusted EBITDA was derived from the last 12 months' adjusted EBITDA.

Reconciliation between EBITDA to adjusted EBITDA and L12M adjusted EBITDA (non-IFRS measures):

	Six months ended 30 June		L12M up to	Year ended 31 December
	2020	2019	**30 June 2020**	2019
	HK$' million	*HK$' million*	***HK$' million***	*HK$' million*
EBITDA	**(35.4)**	588.8	**458.6**	1,082.8
Adjustments:				
– Impairment loss of goodwill and other assets	**445.2**	–	**445.2**	–
– Listing expenses	**–**	18.7	**–**	18.7
Adjusted EBITDA	**409.8**	607.5	**903.8**	1,101.5

4 Net cash generated from operating activities less net cash used in investing activities.

5 Outstanding number of shares multiplied by the closing share price (HK$2.67 per share as of 30 June 2020).

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

FINANCIAL OVERVIEW

HK$ million	Six months ended 30 June **2020**	2019	% Change
Revenue	**1,368.6**	**1,911.1**	**-28.4%**
Gross profit	**365.9**	**612.4**	**-40.3%**
Gross profit margin	26.7%	32.0%	-5.3%
Other revenue	27.9	9.2	203.3%
Other net income	2.8	6.5	-56.9%
Impairment loss of goodwill and other assets	(445.2)	–	N/A
Selling and distribution expenses	(58.7)	(82.0)	-28.4%
Administrative and other operating expenses	(119.3)	(151.8)	-21.4%
(Loss)/profit from operations	**(226.6)**	**394.3**	**-157.5%**
Operating profit margin	-16.6%	20.6%	-37.2%
Net finance expenses	(9.3)	(45.3)	-79.5%
(Loss)/profit before taxation	**(235.9)**	**349.0**	**-167.6%**
Income tax	(32.4)	(48.6)	-33.3%
Effective tax rate	-13.7%	13.9%	-27.6%
(Loss)/profit for the period	**(268.3)**	**300.4**	**-189.3%**
Net profit margin	-19.6%	15.7%	-35.3%
Attributable to:			
(Loss)/profit attributable to shareholders of the Company	(269.9)	300.2	-189.9%
Non-controlling interest	1.6	0.2	700.0%
	(268.3)	300.4	-189.3%

OVERVIEW

The outbreak of COVID-19 has affected the operating environment significantly. Initially the impact was on the Group's manufacturing operation in China, and later extended to Europe and North America. As a result, most of our customers have implemented various extent of plant shutdowns to constrain the spread of the COVID-19 pandemic. These extreme and unprecedented measures have reduced the Group's revenue and operating profit. In response to such challenging environment, management has implemented a series of operating cost and capital expenditure control measures in order to lower the breakeven point of operations, and preserve liquidity to weather the current economic crisis.

Despite the ongoing challenges and difficulties, the Group has achieved an adjusted EBITDA margin of 29.9%, or just 1.9% lower than that for the corresponding period of last year.

FINANCIAL REVIEW

Revenue

Revenue for the six months ended 30 June 2020 decreased by 28.4% compared with that for the corresponding period of the previous financial year to HK$1,368.6 million.

Gross profit and gross profit margin

The Group's gross profit decreased by HK$246.5 million, or 40.3% to HK$365.9 million for the six months ended 30 June 2020 as compared to HK$612.4 million for the six months ended 30 June 2019. The gross profit of precision machining business was the hardest hit segment which had experienced a decline of HK$106.9 million, or 57.6% to HK$78.8 million during the period under review. The gross profit of the sand casting business also suffered a drop of HK$41.7 million, or 42.2% to HK$57.2 million, while the gross profit of the remaining segments also decreased relatively mildly for the six months ended 30 June 2020, as compared to that for the corresponding period of last year.

Other revenue

For the six months ended 30 June 2020, the Group's other revenue increased by HK$18.7 million to HK$27.9 million (six months ended 30 June 2019: HK$9.2 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

The Group recorded other net income of HK$2.8 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK$6.5 million). Other net income mainly represented the net foreign exchange differences arising from the fluctuations of Turkish lira and RMB against Hong Kong dollars during the period under review.

Impairment loss of goodwill and other assets

During the six months ended 30 June 2020, the Group has made an one-off impairment loss of goodwill and other assets amounted to HK$445.2 million (six months ended 30 June 2019: nil).

Selling and distribution expenses

The Group's selling and distribution expenses decreased by 28.3% from HK$82.0 million for the six months ended 30 June 2019 to HK$58.7 million for the six months ended 30 June 2020. The decrease was consistent with the decrease in revenue of 28.4% during the period under review. Selling and distribution expenses to revenue ratio was 4.3% for both periods.

Administrative and other operating expenses

The Group's administrative and other operating expenses decreased by HK$32.6 million, or 21.4%, to HK$119.3 million for the six months ended 30 June 2020, as compared to HK$151.9 million for the six months ended 30 June 2019. Excluding the listing expenses of HK$18.7 million in last year, the Group's administrative and other operating expenses actually decreased by 10.4% or HK$13.9 million as the Group continued to aggressively optimize its overhead cost while such decrease was partially offset by increase in IT related costs and amortisation of employee share option expenses.

Net finance costs

The Group's net finance costs decreased significantly from HK$45.3 million for the six months ended 30 June 2019 to HK$9.3 million for the six months ended 30 June 2020. The decrease was mainly attributable to the repayment of bank loans and the increase of interest income earned during the period under review.

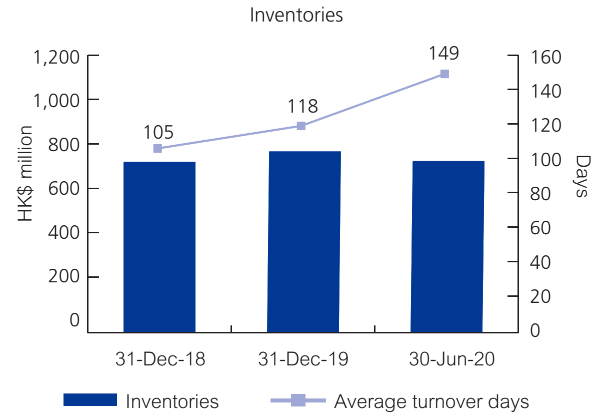
Income tax

The Group's income tax expense decreased to HK$32.4 million for the six months ended 30 June 2020 from HK$48.6 million for the six months ended 30 June 2019, reflecting a lower pre-tax operating profit (adjusted for impairment loss of goodwill and other assets) when compared with that for the corresponding period of last year.

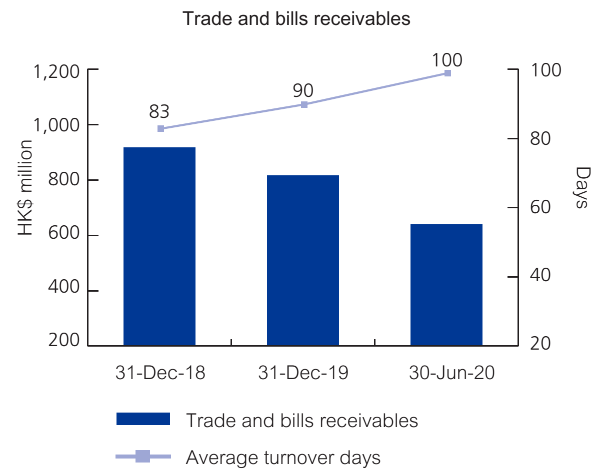
Working capital

HK$ million	**As at 30 June 2020**	As at 31 December 2019
Inventories	**743.6**	785.8
Trade and bills receivables	**637.3**	816.0
Prepayments, deposits and other receivables	**78.7**	76.3
Trade payables	**(197.5)**	(284.2)
Other payables and accruals	**(190.6)**	(259.0)
Deferred income	**(56.1)**	(57.0)
Defined benefit retirement plans obligation	**(70.3)**	(67.8)
Total working capital	**945.1**	1,010.1

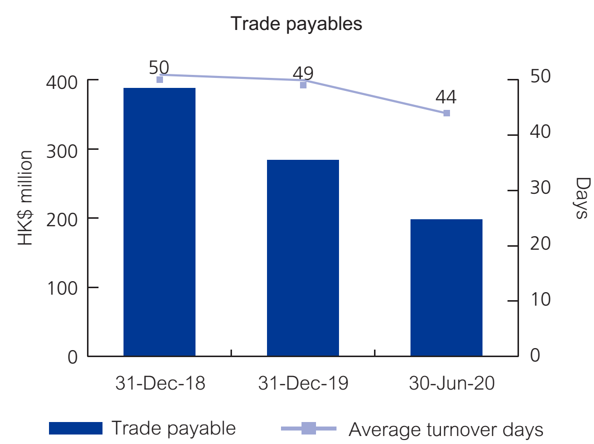
Inventories decreased by HK$42.2 million to HK$743.6 million as of 30 June 2020 (31 December 2019: HK$785.8 million) mainly due to effort made to reduce the level of work-in-progress and finished goods in response to decrease in customers demand. Inventory average turnover days increased from 118 days as at 31 December 2019 to 149 days as at 30 June 2020 mainly due to increase in raw materials holding to secure raw material supply at a relatively cheaper price.



Trade and bills receivables decreased by HK$178.7 million to HK$637.3 million as of 30 June 2020 (31 December 2019: HK$816.0 million) mainly due to the Group's additional effort made on the collection of overdue trade debtors. Trade and bills receivables average turnover days increased from 90 days as at 31 December 2019 to 100 days as at 30 June 2020, mainly due to lower revenue in current period. 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. As at 30 June 2020, current receivables and overdue balances of less than 30 days are maintained at 89.4% (as at 31 December 2019: 88.5%) of the balance of the gross trade and bills receivables.



Trade payables decreased HK$86.7 million to HK$197.5 million as of 30 June 2020 (31 December 2019: HK$284.2 million). The decrease was mainly due to the reduction of overdue payable balances. Trade payable average turnover days as at 30 June 2020 decreased to 44 days as compared to 49 days as at 31 December 2019.



EBITDA and Net loss

The Group's EBITDA (earnings before interest, taxation, depreciation and amortization) was at a loss of HK$35.4 million, or EBITDA margin of -2.6% for the six months ended 30 June 2020, as compared to HK$588.8 million, or EBITDA margin of 30.8% for the corresponding period of last year. Net loss attributable to equity holders of the Company was HK$269.8 million, as compared to a profit of HK$300.2 million for the six months ended 30 June 2019. Net profit margin for the period under review was -19.6%, as compared to 15.7% for the corresponding period of last year.

Excluding the impact of impairment loss of goodwill and other assets, the Group's adjusted EBITDA margin was 29.9% for the six months ended 30 June 2020, which was 1.9% lower than 31.8% attained for the corresponding period of last year, and the adjusted profit attributable to shareholders was HK$182.9 million for the six months ended 30 June 2020, a drop of 44.3% as compared to HK$328.2 million for the corresponding period of last year. Adjusted net profit margin was 13.5% for the six months ended 30 June 2020, as compared to 17.2% for the corresponding period of last year.

Financial resources and liquidity

As at 30 June 2020, the Group's total assets decreased by 13.3% to HK$5,171.9 million and total shareholders' equity decreased by 10.7% to HK$3,597.4 million as compared to the amount as at 31 December 2019. The decrease was mainly due to the impairment loss of goodwill and other assets, which was a non-cash item and thus did not have major impact on the Group's cash flows, operations, liquidity and debt covenant compliance. The Group's current ratio as at 30 June 2020 was 1.98, as compared to 1.77 as at 31 December 2019. The change in current ratio was primarily due to the effort made to improve the management of working capital.

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 "Global Offering"), the Group's working capital requirements were satisfied by way of internal financial resources and bank borrowings. The Group had free cash inflow from operations for the six months ended 30 June 2020. The funds generated from operations and cash on hand are adequate to fund the liquidity and capital requirements.

The Group continues to adopt a 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 condensed consolidated cashflow statement for the Group for the periods indicated:

	Six months ended 30 June	
	2020	2019
	HK$' million	*HK$' million*
Cash generated from/(used in):		
Operating activities	**452.4**	481.0
Investing activities	**(167.7)**	(300.9)
Financing activities	**(289.7)**	892.1
Net movement in cash	**(5.0)**	1,072.2

Cash flows generated from operating activities for the six months ended 30 June 2020 was HK$452.4 million, a decrease of HK$28.6 million compared to HK$481.0 million for the corresponding period of last year. The decrease in cash flows from operating activities was mainly due to decrease in profit, timing of tax payment but partially offset by a decrease in total working capital.

Cash flows used in investing activities for the six months ended 30 June 2020 was HK$167.7 million, a decrease of HK$133.2 million compared to HK$300.9 million for the corresponding period of last year. The major items on investment activities are payment for capital expenditure which include purchases of machinery, equipment, tooling and infrastructure.

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

	Six months ended 30 June	
	2020	2019
	HK$' million	*HK$' million*
Payment of property, plant and equipment	**(152.8)**	(266.0)
Payment for deferred expenses	**(29.9)**	(36.9)
Others	**15.0**	2.0
Net cash used in investing activities	**(167.7)**	(300.9)

Cash flows used in financing activities for the six months ended 30 June 2020 was HK$289.7 million, compared to a net cash flows generated from financing activities of HK$892.1 million for the corresponding period of last year. Cash outflow during the period under review mainly represented repayment of bank borrowings and 2019 final dividend payment whereas the cash inflow for the corresponding period of last year was mainly the receipt of the net proceeds from the Global Offering on 28 June 2019.

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

	Six months ended 30 June	
	2020	2019
	HK$' million	*HK$' million*
Proceeds from the Global Offering	**–**	999.9
Issuance expenses paid	**–**	(34.5)
Proceeds from bank loans	**501.2**	1,198.3
Repayment of bank loans	**(672.2)**	(1,091.9)
Interest paid	**(21.1)**	(44.8)
Dividend paid	**(60.3)**	(102.4)
Lease rental paid	**(37.3)**	(32.5)
Net cash (used in)/generated from financing activities	**(289.7)**	892.1

Indebtedness

As at 30 June 2020, the Group's total borrowings was HK$908.0 million, a decrease of HK$174.2 million from HK$1,082.2 million as at 31 December 2019.

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

	As at 30 June 2020	As at 31 December 2019
	HK$' million	*HK$' million*
Current bank loans	**564.4**	614.4
Non-current bank loans	**275.1**	363.0
Current lease liabilities	**49.8**	70.0
Non-current lease liabilities	**18.7**	34.8
Total borrowings	**908.0**	1,082.2

Details of bank loans of the Group for the six months ended 30 June 2020 are set out in note 16 to the unaudited Interim Financial Report.

As at 30 June 2020, the Group had total banking facilities available for draw-down of HK$1,139.2 million.

The Group monitors capital structure on the basis of the net gearing ratio. The ratio is calculated as total borrowings less cash and cash equivalents and pledged deposits and divided by total equity at the end of the respective period. The Group's net gearing ratio as at 30 June 2020 was 9.6% (31 December 2019: 12.6%). The decrease of net gearing ratio was mainly due to the repayment of existing borrowings.

Capital Expenditures and Commitments

The management of the Group exercised careful control over capital expenditure. The Group incurred capital expenditures of HK$172.1 million for the six months ended 30 June 2020 which was primarily used in the production capacity expansion in the Group's PRC plants, as well as the infrastructure spending in Mexico. Capital commitments contracted for but not incurred by the Group as at 30 June 2020 amounted to HK$314.1 million, which were mainly related to plants construction and acquisition of machinery.

Pledge of Assets

Certain property, plant and equipment of the Group amounted to HK$13.5 million (as at 31 December 2019: HK$15.6 million) and bank deposits of HK$4.1 million (as at 31 December 2019: HK$4.8 million) were pledged as security for bank borrowings/facilities as at 30 Jun 2020.

Contingent Liabilities

As at 30 June 2020, 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 a law firm, which had received a dissenting payments ("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 joint liability. As of the date of this announcement, the arbitration has been pending hearing. 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 and in the Chairman's Statement, 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 six months ended 30 June 2020.

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 members of the Group with minimised amount of financial cost.

The Group's revenue was mainly denominated in US dollar, Euro dollar and RMB while most of the cost of sales is denominated in RMB, Turkish lira, Euro dollar and Mexican peso. As a result, exchange rate fluctuations between US dollar, Euro dollar, RMB, Turkish lira and Mexican peso against Hong Kong dollar could affect the Group's performance and asset value in the reporting currency of Hong Kong dollar.

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 reduce the impact of exchange rate fluctuations. As at 30 June 2020, the borrowings of the Group were denominated in Hong Kong dollar, US dollar, RMB and Euro dollar, in which, HK$176.4 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 six months ended 30 June 2020, the Group did not use any financial instrument for hedging purpose.

Employees and Remuneration Policy

As at 30 June 2020, the Group had 6,553 full-time employees of whom 5,505 were based in Mainland China and 1,048 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$379.3 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK$473.5 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 options may be provided to selected employees taking into consideration the Group's performance and the performance of the individual employee.

The Group adopted a pre-IPO share option scheme ("Pre-IPO Share Option Scheme") for its employees.

Use of Proceeds from the Global Offering

The net proceeds ("Net Proceeds") from the issue of new shares of the Company for listing on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") were HK$1,031.5 million and have been applied in the manner set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 18 June 2019 (the "Prospectus"). There has been no change in the actual use of the Net Proceeds from those set out in the Prospectus up to 31 December 2019 and 30 June 2020, respectively.

The table below sets forth the actual use of the Net Proceeds from the Global Offering up to the period ended 30 June 2020:

Business strategies as set out in the Prospectus	**Actual amount of the Net Proceeds** *HK$ million*	**Actual use of the Net Proceeds up to 30 June 2020** *HK$ million*	**Unutilized proceeds as at 30 June 2020** *HK$ million*
Capital expenditures for production capacity expansion *(Note 1)*	**437.9**	**349.8**	**88.1**
Repayment of interest-bearing bank borrowings	**271.1**	**271.1**	**–**
Acquisition of businesses *(Note 2)*	**219.0**	**–**	**219.0**
Working capital and general corporate purpose	**103.5**	**103.5**	**–**
Total	**1,031.5**	**724.4**	**307.1**

Note 1: The balance of unutilized amount on capital expenditures for production capacity expansion is currently expected to be fully utilized by 31 December 2020.

Note 2: As of the date of this interim results announcement, the Company had not identified any acquisition targets but will continue to explore in the second half of 2020. The Company will update any change of this use of proceeds plan in the 2020 annual report.

FURTHER INFORMATION ON THE GROUP

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Taking into consideration the profitability of the Group and the financial resources required for business expansion, the Board has resolved to declare an interim dividend of 2.4 HK cents per Share (six months ended 30 June 2019: 4.0 HK cents per Share) for the six months ended 30 June 2020 in the total amount of approximately HK$45.2 million (six months ended 30 June 2019: HK$75.3 million). Relevant dates for interim dividend payment are set out below.

Relevant Dates for Interim Dividend Payment

Ex-dividend date	26 August 2020
Closure of register of members	28 August to 1 September 2020 (both days inclusive)
Record date	1 September 2020
Dividend payment date	on or before 10 September 2020

In order to qualify for the interim dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong share registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration by 4:30 p.m. on Thursday, 27 August 2020.

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

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the principles and code provisions of the Code Provisions in the Corporate Governance Code (the "CG Code") as the basis of the Company's corporate governance practices with effect from the date of the Listing.

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 six months ended 30 June 2020, 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 is our Group's chairman and chief executive officer. 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.

The Board has established an audit committee, a nomination committee, a remuneration committee and a sustainability committee, each with defined terms of reference which are no less exacting than those set out in the CG Code.

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 of 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 during the six months ended 30 June 2020.

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

As of 30 June 2020, 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 Securities and Futures Ordinance (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	Approximate percentage of the Company's issued share capital
Mr. LU Ruibo ("Mr. LU")	Interest in a controlled corporation (1)	1,137,790,787	60.41%
	Spouse interest (2)	1,500,000	0.08%
	Beneficial owner	9,239,000	0.49%
Ms. WANG Hui, Ina ("Ms. WANG")	Beneficial owner (2)	1,500,000	0.08%
	Spouse interest (3)	1,147,029,787	60.91%
Mr. YU Yuepeng	Beneficial owner (4)	1,500,000	0.08%
Ms. ZHU Liwei	Beneficial owner (5)	1,500,000	0.08%
Mr. WANG Dong	Beneficial owner (6)	1,500,000	0.08%

(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 1,137,790,787 Shares held by Impro Development under the SFO.

(2) Ms. WANG was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

(3) Ms. WANG is the spouse of Mr. LU and is deemed to be interested in the shares which Mr. Lu is interested in pursuant to Divisions 7 and 8 of Part XV and section 352 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 options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

(5) Ms. ZHU Liwei was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

(6) Mr. WANG Dong was granted options under the Pre-IPO Share Option Scheme to subscribe for 1,500,000 Shares.

Save as disclosed above, as at 30 June 2020, 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 Share and debentures of the Company and any of its 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 SHARES AND UNDERLYING SHARES OF THE COMPANY

As of 30 June 2020, the interests and short positions of the persons, other than Directors and chief executive of the Company, (except for Mr. LU and his controlled company) 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	Approximate percentage of the Company's issued share capital
Impro Development	Beneficial owner	1,137,790,787	60.41%
Mr. LU	Interest in controlled corporation and beneficial owner	1,147,029,787	60.91%
	Spouse Interest	1,500,000	0.08%
Baring Private Equity Asia V Holding (2) Limited ("Baring") (1)	Beneficial owner	237,153,654	12.59%
Casting Holdings Limited (1) (2)	Interest in controlled corporation	237,153,654	12.59%
The Baring Asia Private Equity Fund V, L.P. (2)	Interest in controlled corporation	237,153,654	12.59%
Baring Private Equity Asia GP V, L.P. (2)	Interest in controlled corporation	237,153,654	12.59%
Baring Private Equity Asia GP V Limited (2)	Interest in controlled corporation	237,153,654	12.59%
Jean Eric Salata Rothleder (2)	Interest in controlled corporation	237,153,654	12.59%
GT Cedar Capital (Hong Kong) Limited ("GT Cedar") (3)	Beneficial owner	95,267,123	5.06%
Genertec Investment Management Co. Ltd. (4)	Interest in a controlled corporation	95,267,123	5.06%
China General Technology (Group) Holding Company Limited (4)	Interest in a controlled corporation	95,267,123	5.06%

Notes:

(1) Baring is wholly-owned by Casting Holdings Limited. Casting Holdings Limited is owned as to 99.35% by The Baring Asia Private Equity Fund V, L.P. and 0.65% by The Baring Asia Private Equity Fund V Co-Investment L.P.

(2) Each of Casting Holdings Limited, The Baring Asia Private Equity Fund V, L.P. (as the controlling shareholder of Casting Holdings Limited), Baring Private Equity Asia GP V, L.P. (as the general partner of The Baring Asia Private Equity Fund V, L.P.), Baring Private Equity Asia GP V Limited (as the general partner of Baring Private Equity Asia GP V, L.P.), and Mr. Jean Eric Salata Rothleder (as the sole shareholder of Baring Private Equity Asia GP V Limited) are deemed to be interested in the Shares held by Baring. Mr. Jean Eric Salata Rothleder disclaims beneficial ownership of the Shares held by Baring, except to the extent of his economic interest in such entities.

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

(4) Genertec Investment Management Co. Ltd. is owned as to 99.7% by China General Technology (Group) Holding Company Limited and 0.3% by China National Technical Import & Export Corporation, a wholly-owned subsidiary of China General Technology (Group) Holding Company Limited. Under the SFO, Genertec Investment Management Co. Ltd. and China General Technology (Group) Holding Company Limited are deemed to be interested in the Shares held by GT Cedar.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITIONS WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

(a) Interest of substantial shareholders in members of our Group (other than our Company)

Member of our Group	Name of shareholders with 10% or more equity interest other than us	Approximate percentage of shareholding
Impross Impeller (Yixing) Co., Ltd.	Ross Casting and Innovation, LLC	33.00%

Save as disclosed above, as at 30 June 2020, 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 a post-IPO share option scheme (the “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 30 June 2020, the Company had granted share options to certain eligible participants pursuant to the Pre-IPO Share Option Scheme and no option had been granted under the Post-IPO Share Option Scheme.

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.

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

The table below sets forth the names of the Directors and the number of other grantees under the Pre-IPO Share Option Scheme and movement in the number of share options during the six months ended 30 June 2020:

Grantees	Date of grant	Exercise price per option	Exercise period	Number of options [(1)] Outstanding as of 1 January 2020	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as of 30 June 2020
Directors								
Ms. WANG Hui, Ina	28/6/2019 [(2)]	HK$2.4	28/06/2022-24/12/2024	1,500,000	–	–	–	1,500,000
Mr. YU Yuepeng	28/6/2019 [(2)]	HK$2.4	28/06/2022-24/12/2024	1,500,000	–	–	–	1,500,000
Ms. ZHU Liwei	28/6/2019 [(2)]	HK$2.4	28/06/2022-24/12/2024	1,500,000	–	–	–	1,500,000
Mr. WANG Dong	28/6/2019 [(2)]	HK$2.4	28/06/2022-24/12/2024	1,500,000	–	–	–	1,500,000
Other employees	28/6/2019 [(2)]	HK$2.4	28/06/2022-24/12/2024	22,105,000	–	–	(795,000)	21,310,000
				28,105,000	–	–	(795,000)	27,310,000

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 Share was 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 795,000 shares lapsed during the six months ended 30 June 2020 following the cessation of employment of certain grantees.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Pre-IPO Share Option Scheme during the six months ended 30 June 2020.

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 June 15, 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.

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, lapsed 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 our Shares 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 Hong Kong Stock Exchange's daily quotations sheet on the date of grant; and (iii) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the date of grant.

EVENTS AFTER THE END OF REPORTING PERIOD

Save for the interim dividend as disclosed in the paragraphs under "interim dividend and closure of register of members", no material events affecting any member of the Group occurred after the end of the reporting period up to the date of this interim results announcement.

CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVE

There has been no change in the information of the Directors and chief executive required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the reporting period.

REVIEW OF THE INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2020. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company with senior management members and the external auditor of the Company.

The unaudited interim financial report of the Group for the six months ended 30 June 2020 has also been reviewed by the Company's external auditor, KPMG, in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the International Auditing and Assurance Standard Board.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.improprecision.com) and HKExnews (www.hkexnews.hk). The Company's 2020 interim report will be despatched to the shareholders and available on the same websites on or about 28 August 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020 (unaudited)
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	**2020** *HK$'000*	2019 *HK$'000*
Revenue	*4*	**1,368,631**	1,911,085
Cost of sales		**(1,002,709)**	(1,298,711)
Gross profit		**365,922**	612,374
Other revenue	*5(a)*	**27,940**	9,216
Other net income	*5(b)*	**2,840**	6,507
Impairment loss of goodwill and other assets	*11*	**(445,201)**	–
Selling and distribution expenses		**(58,744)**	(81,968)
Administrative and other operating expenses		**(119,305)**	(151,863)
(Loss)/profit from operations		**(226,548)**	394,266
Net finance costs	*6(a)*	**(9,301)**	(45,258)
(Loss)/profit before taxation	*6*	**(235,849)**	349,008
Income tax	*7*	**(32,402)**	(48,563)
(Loss)/profit for the period		**(268,251)**	300,445
Attributable to:			
Equity shareholders of the Company		**(269,845)**	300,186
Non-controlling interest		**1,594**	259
(Loss)/profit for the period		**(268,251)**	300,445
(Loss)/earnings per share			
Basic (HK$)	*8(a)*	**(0.143)**	0.199
Diluted (HK$)	*8(b)*	**(0.143)**	0.199

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 (unaudited)
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
(Loss)/profit for the period	**(268,251)**	300,445
Other comprehensive income for the period (after tax adjustments)		
Items that will not be reclassified to profit or loss:		
Effect of remeasurement of defined benefit retirement plans obligation	**(4,713)**	(394)
Related tax	**414**	340
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	**(100,986)**	(14,104)
Other comprehensive income for the period (after tax adjustments)	**(105,285)**	(14,158)
Total comprehensive income for the period	**(373,536)**	286,287
Attributable to:		
Equity shareholders of the Company	**(374,918)**	286,076
Non-controlling interest	**1,382**	211
Total comprehensive income for the period	**(373,536)**	286,287

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2020 (unaudited)
(Expressed in Hong Kong dollars)

	Note	**At 30 June 2020** *HK$'000*	At 31 December 2019 *HK$'000*
Non-current assets			
Property, plant and equipment	*9*	**2,829,302**	2,884,594
Prepayments for purchase of property, plant and equipment		**43,007**	57,071
Intangible assets	*10*	**62,034**	69,729
Goodwill	*11*	**–**	446,440
Deferred expenses		**159,090**	163,249
Other financial asset		**1,542**	1,572
Deferred tax assets		**25,709**	32,316
		3,120,684	3,654,971
Current assets			
Inventories	*12*	**743,564**	785,812
Trade and bills receivables	*13*	**637,276**	815,987
Prepayments, deposits and other receivables	*14*	**78,671**	76,313
Taxation recoverable		**5,701**	768
Restricted deposits	*15(b)*	**22,740**	56,623
Pledged deposits	*15(b)*	**4,127**	4,803
Cash and cash equivalents	*15(a)*	**559,172**	568,965
		2,051,251	2,309,271
Current liabilities			
Bank loans	*16*	**564,389**	614,398
Lease liabilities		**49,761**	70,033
Trade payables	*17*	**197,470**	284,215
Other payables and accruals	*18*	**190,624**	258,980
Taxation payable		**32,749**	73,998
		1,034,993	1,301,624
Net current assets		**1,016,258**	1,007,647
Total assets less current liabilities		**4,136,942**	4,662,618

	Note	At **30 June** **2020** ***HK$'000***	At 31 December 2019 *HK$'000*
Non-current liabilities			
Bank loans	*16*	**275,068**	363,007
Lease liabilities		**18,784**	34,822
Deferred income		**56,132**	56,999
Defined benefit retirement plans obligation		**70,253**	67,854
Deferred tax liabilities		**119,325**	112,979
		539,562	635,661
NET ASSETS		**3,597,380**	4,026,957
CAPITAL AND RESERVES	*19*		
Share capital		**188,330**	188,330
Reserves		**3,392,697**	3,823,656
Total equity attributable to equity shareholders of the Company		**3,581,027**	4,011,986
Non-controlling interest		**16,353**	14,971
TOTAL EQUITY		**3,597,380**	4,026,957

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2020 (unaudited)
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company								Non-controlling interest	Total equity
		Share capital	Share premium	Capital reserve	Statutory surplus reserve	Exchange reserve	Fair value reserve (non-recycling)	Retained profits	Total		
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2019		128	543,673	1,110	191,026	(173,956)	–	2,106,101	2,668,082	15,014	2,683,096
Changes in equity for the six months ended 30 June 2019:											
Profit for the period		–	–	–	–	–	–	300,186	300,186	259	300,445
Other comprehensive income		–	–	–	–	(14,056)	–	(54)	(14,110)	(48)	(14,158)
Total comprehensive income		–	–	–	–	(14,056)	–	300,132	286,076	211	286,287
Capitalization issue		149,872	(149,872)	–	–	–	–	–	–	–	–
Issue of ordinary shares by initial public offering, net of issuance costs		33,330	895,991	–	–	–	–	–	929,321	–	929,321
Appropriation of dividends	*19(a)*	–	–	–	–	–	–	(102,400)	(102,400)	–	(102,400)
Balance at 30 June 2019 and 1 July 2019		183,330	1,289,792	1,110	191,026	(188,012)	–	2,303,833	3,781,079	15,225	3,796,304
Changes in equity for the six months ended 31 December 2019:											
Profit for the period		–	–	–	–	–	–	238,670	238,670	(75)	238,595
Other comprehensive income		–	–	–	–	(74,234)	(571)	(7,333)	(82,138)	(179)	(82,317)
Total comprehensive income		–	–	–	–	(74,234)	(571)	231,337	156,532	(254)	156,278
Issue of ordinary shares by initial public offering and overallotment, net of issuance costs		5,000	140,486	–	–	–	–	–	145,486	–	145,486
Appropriation of dividends	*19(a)*	–	–	–	–	–	–	(75,332)	(75,332)	–	(75,332)
Appropriation of reserve		–	–	–	26,049	–	–	(26,049)	–	–	–
Equity settled share-based transactions	*19(b)*	–	–	4,221	–	–	–	–	4,221	–	4,221
Balance at 31 December 2019		188,330	1,430,278	5,331	217,075	(262,246)	(571)	2,433,789	4,011,986	14,971	4,026,957

	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
		Attributable to equity shareholders of the Company									
Balance at 1 January 2020		188,330	1,430,278	5,331	217,075	(262,246)	(571)	2,433,789	4,011,986	14,971	4,026,957
Changes in equity for the six months ended 30 June 2020:											
(Loss)/profit for the period		–	–	–	–	–	–	(269,845)	(269,845)	1,594	(268,251)
Other comprehensive income		–	–	–	–	(100,774)	–	(4,299)	(105,073)	(212)	(105,285)
Total comprehensive income		–	–	–	–	(100,774)	–	(274,144)	(374,918)	1,382	(373,536)
Appropriation of dividends	*19(a)*	–	–	–	–	–	–	(60,265)	(60,265)	–	(60,265)
Equity settled share-based transactions	*19(b)*	–	–	4,224	–	–	–	–	4,224	–	4,224
Balance at 30 June 2020		188,330	1,430,278	9,555	217,075	(363,020)	(571)	2,099,380	3,581,027	16,353	3,597,380

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020 (unaudited)
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	**2020** **HK$'000**	2019 *HK$'000*
Operating activities			
Cash generated from operations		**516,153**	514,000
Tax paid		**(63,716)**	(32,978)
Net cash generated from operating activities		**452,437**	481,022
Investing activities			
Payment for the acquisition of property, plant and equipment		**(152,774)**	(266,020)
Payment for deferred expenses		**(29,906)**	(36,920)
Other cash flows arising from investing activities		**14,999**	2,066
Net cash used in investing activities		**(167,681)**	(300,874)
Financing activities			
Proceeds from issue of ordinary shares by initial public offering		**–**	999,900
Share issuance costs paid		**–**	(34,500)
Proceeds from bank loans		**501,189**	1,198,337
Repayment of bank loans		**(672,240)**	(1,091,924)
Interest paid		**(21,131)**	(44,766)
Dividends paid to equity shareholders of the Company	*19(a)*	**(60,265)**	(102,400)
Capital element of lease rentals paid		**(35,499)**	(29,576)
Interest element of lease rentals paid		**(1,776)**	(2,994)
Net cash (used in)/generated from financing activities		**(289,722)**	892,077
(Decrease)/increase in cash and cash equivalents		**(4,966)**	1,072,225
Cash and cash equivalents at 1 January	*15(a)*	**568,965**	235,543
Effect of foreign exchange rate changes		**(4,827)**	(764)
Cash and cash equivalents at 30 June	*15(a)*	**559,172**	1,307,004

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

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 Law, 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 BASIS OF PREPARATION

This interim financial report of Impro Precision Industries Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, Interim financial reporting, issued by the International Accounting Standards Board ("IASB"). It was authorized for issue on 13 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statement. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a period to date basis. Actual results may differ from these estimates.

This interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements for the financial year ended 31 December 2019. The Company's auditor has reported on those financial statements for the financial year ended 31 December 2019. The auditor's report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, *Definition of a Business*
- Amendment to IFRS 16, *Covid-19-Related Rent Concessions*

None of these 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 in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to IFRS 16, C*ovid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

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.

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

	Six months ended 30 June	
Revenue	**2020**	2019
	HK$'000	*HK$'000*
Investment casting	**661,061**	862,462
Precision machining	**390,417**	624,338
Sand casting	**216,711**	296,293
Surface treatment	**100,442**	127,992
	1,368,631	1,911,085

The Group's revenue from contracts with customers were recognized at point in time for the six months ended 30 June 2020 and 2019. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

(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, anodising, 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, restricted deposits, pledged 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, amortization and impairment loss of goodwill and other assets. 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 adjusted earnings before interest, taxes, depreciation, amortization and impairment loss of goodwill and other assets.

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 period is set out below:

	Six months ended 30 June 2020				
	Investment casting *HK$'000*	**Precision machining** *HK$'000*	**Sand casting** *HK$'000*	**Surface treatment** *HK$'000*	**Total** *HK$'000*
Revenue from external customers	**661,061**	**390,417**	**216,711**	**100,442**	**1,368,631**
Inter-segment revenue	**–**	**–**	**–**	**10,552**	**10,552**
Reportable segment revenue	**661,061**	**390,417**	**216,711**	**110,994**	**1,379,183**
Gross profit from external customers	**203,586**	**78,798**	**57,233**	**26,305**	**365,922**
Inter-segment gross profit	**–**	**–**	**–**	**3,273**	**3,273**
Reportable segment gross profit	**203,586**	**78,798**	**57,233**	**29,578**	**369,195**
Depreciation and amortization	**73,967**	**57,635**	**35,724**	**23,863**	**191,189**
Impairment loss of goodwill and other assets	**–**	**215,071**	**–**	**230,130**	**445,201**
Reportable segment profit	**202,563**	**85,352**	**66,815**	**41,289**	**396,019**

	Six months ended 30 June 2019				
	Investment casting *HK$'000*	Precision machining *HK$'000*	Sand casting *HK$'000*	Surface treatment *HK$'000*	Total *HK$'000*
Revenue from external customers	862,462	624,338	296,293	127,992	1,911,085
Inter-segment revenue	–	–	–	11,692	11,692
Reportable segment revenue	862,462	624,338	296,293	139,684	1,922,777
Gross profit from external customers	290,058	185,713	98,934	37,669	612,374
Inter-segment gross profit	–	–	–	5,224	5,224
Reportable segment gross profit	290,058	185,713	98,934	42,893	617,598
Depreciation and amortization	76,452	56,222	36,674	25,153	194,501
Reportable segment profit	276,715	173,126	104,648	53,875	608,364

	As at 30 June 2020				
	Investment casting	**Precision machining**	**Sand casting**	**Surface treatment**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Reportable segment assets	**1,815,915**	**1,501,131**	**769,421**	**478,088**	**4,564,555**

	As at 31 December 2019				
	Investment casting	Precision machining	Sand casting	Surface treatment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reportable segment assets	1,987,112	1,753,974	802,645	758,701	5,302,432

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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**1,379,183**	1,922,777
Elimination of inter-segment revenue	**(10,552)**	(11,692)
Consolidated revenue	**1,368,631**	1,911,085
Gross profit		
Reportable segment gross profit	**369,195**	617,598
Elimination of inter-segment gross profit	**(3,273)**	(5,224)
Consolidated gross profit	**365,922**	612,374
Profit		
Reportable segment profit	**396,019**	608,364
Elimination of inter-segment profit	**(3,273)**	(5,224)
Reportable segment profit derived from Group's external customers	**392,746**	603,140
Other revenue	**27,940**	9,216
Other net income	**2,840**	6,507
Impairment loss of goodwill and other assets	**(445,201)**	–
Listing expenses	**–**	(18,700)
Unallocated head office and corporate expenses	**(13,684)**	(11,396)
Consolidated (loss)/profit before interest, taxes, depreciation and amortization	**(35,359)**	588,767
Net finance costs	**(9,301)**	(45,258)
Depreciation and amortization	**(191,189)**	(194,501)
Consolidated (loss)/profit before taxation	**(235,849)**	349,008

(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

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Americas		
– United States of America ("United States")	**528,584**	778,950
– Others	**41,591**	56,018
Europe	**428,013**	648,705
Asia		
– The People's Republic of China ("PRC")	**344,373**	379,965
– Others	**26,070**	47,447
	1,368,631	1,911,085

Specified non-current assets

	At 30 June	At 31 December
	2020	2019
	HK$'000	*HK$'000*
United States	**12,906**	14,774
Europe	**603,693**	849,811
The PRC	**2,243,354**	2,580,143
Mexico	**235,022**	177,927
	3,094,975	3,622,655

5 OTHER REVENUE AND OTHER NET INCOME

(a) Other revenue

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Rental income	**454**	55
Government grants	**25,592**	7,049
Others	**1,894**	2,112
	27,940	9,216

(b) Other net income

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Net exchange gain	**4,015**	5,492
Net (loss)/gain on disposal of property, plant and equipment	**(1,329)**	258
Others	**154**	757
	2,840	6,507

6 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Interest income	**(12,489)**	(974)
Interest expenses on bank loans	**20,014**	45,690
Interest expenses on lease liabilities	**1,776**	2,994
Less: borrowing costs capitalized as construction in progress	**–**	(2,452)
	21,790	46,232
Net finance costs	**9,301**	45,258

(b) Other items

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Cost of inventories recognized as expenses*	**1,002,709**	1,298,711
Depreciation charges		
– owned property, plant and equipment	**140,594**	132,613
– right-of-use assets	**12,950**	17,173
Amortization of intangible assets	**6,728**	6,976
Amortization of deferred expenses	**30,917**	37,739
Research and development expenses	**50,262**	53,479
(Reversal)/provision of impairment loss of trade and other receivables	**(1,741)**	1,677
Provision for write-down of inventories	**5,481**	3,439
Listing expenses	**–**	18,700

* 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 for each of these types of expenses.

7 INCOME TAX

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Current tax – PRC Corporate Income Tax		
– Provision for the period	**10,897**	28,648
– Over-provision in respect of prior years*	**(12,657)**	(10,013)
Current tax – Hong Kong Profits Tax	**17,449**	19,100
Current tax – Tax jurisdictions outside PRC and Hong Kong	**2,083**	5,276
	17,772	43,011
Deferred taxation	**14,630**	5,552
	32,402	48,563

* Over provision in respect of prior year mainly represents the additional deduction of research and development expense in accordance with the relevant rules and regulations in the PRC, which was claimed by the Company during the tax filing period.

The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 June 2019: 16.5%) to the six months ended 30 June 2020. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$269,845,000 (six months ended 30 June 2019: profit attributable to ordinary equity shareholders of the Company of HK$300,186,000) and the weighted average of 1,883,295,000 ordinary shares (2019: 1,505,524,309 shares) in issue during the interim period.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$269,845,000 (six months ended 30 June 2019: profit attributable to ordinary equity shareholders of the Company of HK$300,186,000) and the weighted average of 1,887,721,249 ordinary shares (2019: 1,505,625,851 shares).

9 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2020, the Group did not enter into new lease agreements.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment at a cost of HK$186,189,000 (six months ended 30 June 2019: HK$262,535,000). Items of property, plant and equipment with a net book value of HK$4,126,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: HK$739,000), resulting in a loss on disposal of HK$1,329,000 (six months ended 30 June 2019: a gain of HK$258,000).

(c) Impairment losses

During the six months ended 30 June 2020, an impairment loss of HK$4,811,000 was made on property, plant and equipment as a result of the impairment assessment of CGUs by management (see Note 11).

10 INTANGIBLE ASSETS

During the six months ended 30 June 2020, an impairment loss of HK$420,000 was made on intangible assets as a result of the impairment assessment of CGUs by management (see Note 11).

11 GOODWILL

	HK$' 000
Cost:	
At 1 January 2019	598,490
Exchange adjustment	(13,958)
At 31 December 2019 and 1 January 2020	584,532
Exchange adjustment	(7,370)
At 30 June 2020	577,162
Accumulated impairment losses:	
At 1 January 2019	(141,178)
Exchange adjustment	3,086
At 31 December 2019 and 1 January 2020	(138,092)
Impairment loss	(439,970)
Exchange adjustment	900
At 30 June 2020	(577,162)
Carrying amount:	
At 30 June 2020	–
At 31 December 2019	446,440

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 CGU of the Group identified according to the individual business operated by Nantong Shenhai Science and Industrial Technology Co., Ltd. and Haimen Xinhai Special Plating Co., Ltd. (collectively, the "Shenhai Group") and Cengiz Makina Sanayi ve Ticaret Anonim Sirketi ("Cengiz Makina") acquired by the Group in 2014.

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

	At 30 June 2020 ***HK$' 000***	At 31 December 2019 *HK$' 000*
Shenhai Group	**–**	231,168
Cengiz Makina	**–**	215,272
	–	446,440

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash-flows beyond the five-year period are extrapolated using an estimated annual growth rate of 2% for both Shenhai Group and Cengiz Makina respectively as at 30 June 2020 (31 December 2019: 2%), which is based on industry growth forecasts. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 12.5% and 14.5% for Shenhai Group and Cengiz Makina respectively as at 30 June 2020 (31 December 2019: 12.3% and 13.7%). Key assumptions used for the value in use calculations are the discount rate and budgeted earnings before interest, taxes, depreciation and amortization ("EBITDA") growth rate in the five-year projection period. The discount rate was a pre-tax measure based on the risk-free rate in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU. Budgeted EBITDA growth rate in the five-year projection period was estimated taking into account of revenue, gross margins and operating expenses based on past performance and its expectation for market development.

Since the outbreak of COVID-19 pandemic throughout Europe and North America in March 2020, most of the Group's European and North American customers have implemented various extent of plant shutdowns, which have reduced the Group's revenue and operating profit. While these countries have gradually lifted the economic lockdown recently, the management of the Group believes that in the near to medium term, high unemployment rate and the threat of second or third wave of COVID-19 pandemic will continue to adversely affect consumer confidence which will lead to weak consumption globally at least until the end of 2020. The management of the Group therefore identified the impairment indicator of the CGUs of Shenhai Group and Cengiz Makina and performed the impairment test at the end of the interim reporting period. The Group revised the financial budgets used in the value-in-use calculations based on the latest financial information, with reference to current market conditions and the industry outlook. The result indicated that the estimated recoverable amount of the CGUs of Shenhai Group and Cengiz Makina were lower than their carrying amounts by HK$230,130,000 and HK$215,071,000 respectively. Accordingly, impairment loss of HK$439,970,000 were allocated to fully write off the goodwill of the CGUs and impairment loss of HK$5,231,000 were allocated pro rata to other assets in the CGUs, on the basis of the carrying amount of each asset in the CGUs.

12 INVENTORIES

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Raw materials	**182,093**	157,337
Work in progress	**260,830**	309,271
Finished goods	**359,135**	373,664
	802,058	840,272
Write down of inventories	**(58,494)**	(54,460)
	743,564	785,812

During the six months ended 30 June 2020, the Group recognized a write-down of HK$5,481,000 (six months ended 30 June 2019: HK$3,439,000) against those inventories with net realizable value lower than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

13 TRADE AND BILLS RECEIVABLES

	At 30 June 2020	At 31 December 2019
	HK$'000	*HK$'000*
Trade receivables	**594,477**	766,544
Bills receivable	**62,817**	79,091
	657,294	845,635
Less: loss allowance	**(20,018)**	(29,648)
	637,276	815,987

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

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

	At 30 June 2020	At 31 December 2019
	HK$'000	*HK$'000*
Within 1 month	**337,042**	407,826
1 to 3 months	**250,064**	344,767
Over 3 months but within 12 months	**50,170**	63,394
	637,276	815,987

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

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Prepayments	**33,668**	34,004
Value added tax recoverable	**31,290**	36,097
Other deposits and receivables	**25,153**	17,806
	90,111	87,907
Less: loss allowance *(Note)*	**(11,440)**	(11,594)
	78,671	76,313

Note:

Subsequent to the completion of acquisition of Shenhai Group in June 2014, the Group entered into supplemental agreements with the former shareholders of Shenhai Group in November 2014 and June 2015, respectively, to finalize the consideration of the transfer of ownership interest of Shenhai Group under the original acquisition agreement between the Group and former shareholders of Shenhai Group (the "Seller"). The consideration was payable by instalment and the unpaid portion of HK$21,718,000 as at 30 June 2020 (31 December 2019: HK$56,623,000) was fully recognized in the consolidated statement of financial position.

From 2014 to March 2015, the Group made several instalment payments to the Seller. Subsequently in August 2015, the Group made another payment totalling RMB88,604,000 to the Seller. Based on the instruction from the Seller, the Group also paid RMB8,000,000 to the Seller's representative and RMB8,000,000 to a law firm in China (the "Dissenting Payments"), which were recorded as settlement of the consideration payable. In July 2016, however, the Seller filed an arbitration application with Shanghai International Economic and Trade Arbitration Commission, claiming the Dissenting Payments of RMB16,000,000 and certain late penalties on the settlement of the consideration.

The arbitral tribunal issued the arbitration award in January 2018 in favor of the Seller's claim that the Group shall make the outstanding payment of RMB16,000,000 to the Seller. In February 2018, the Group requested the Seller's representative and the law firm which received the Dissenting Payments to return the aggregate RMB16,000,000 to the Group.

In February 2018, the Group filed an application to institute an action at the Shanghai Second Intermediate People's Court to revoke the arbitration award but the application was rejected. To protect the Group's interests, the Group appealed to the local People's Court in Wuxi on 3 July 2018 claiming that the Seller and the Seller's representative have committed a tort fraud, which has been rejected on 30 September 2018. The Group has made a further appeal to such rejection decision but it has been rejected again on 27 November 2018.

On 8 January 2019, the Group appealed to the local People's Court in Shanghai by claiming the domestic law firm's unjust enrichment amounting to RMB8,000,000, being a portion of the Dissenting Payments. On 12 November 2019, the local People's Court in Shanghai made the court decision in favor of the Group's claim. The domestic law firm further appealed for the second instance. On 23 April 2020, the local People's Court in Shanghai rejected the domestic law firm's appeal and uphold the decision in favor of the Group's claim of RMB8,000,000.

On 18 April 2019, the Group sued the Seller's representative at the local People's Court in Wuxi. claiming for the repayment of RMB8,000,000 as well as alleging criminal offence of embezzlement. On 21 May 2019, the Group and the Seller's representative reached an accord with satisfaction that the Seller's representative committed to repay the amount in instalments by 30 June 2020. During the year ended 31 December 2019, the Group received a total of RMB6,000,000 in three instalments.

As at 30 June 2020, the unsettled portion of Dissenting Payments were recorded under other deposits and receivables in the Group's consolidated statements of financial position. The Group made provision of RMB10,000,000 (equivalent to HK$11,320,000) (31 December 2019: RMB10,000,000 (equivalent to HK$11,363,000) on such other deposits and receivables).

15 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

(a) Cash and cash equivalents comprise:

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Cash at bank	**558,977**	568,709
Cash on hand	**195**	256
	559,172	568,965

(b) Pledged deposits and restricted deposits comprise:

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Pledged deposits for		
– issuance of letters of credit	**4,127**	4,803

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Restricted deposits	**22,740**	56,623

The pledged bank deposits will be released upon the settlement of the relevant letters of credit by the Group or the termination of relevant banking facilities. The restricted deposits will mainly be used for the settlement of the unpaid portion of deferred consideration payable (Note 14).

16 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 30 June 2020 ***HK$'000***	At 31 December 2019 *HK$'000*
Short-term bank loans	**300,398**	450,919
Current portion of long-term bank loans	**263,991**	163,479
Within 1 year or on demand	**564,389**	614,398
After 1 year but within 2 years	**157,928**	292,218
After 2 years but within 5 years	**117,140**	70,789
	275,068	363,007
	839,457	977,405

At the end of each reporting period, the bank loans were secured as follows:

	At 30 June 2020 ***HK$'000***	At 31 December 2019 *HK$'000*
Bank loans		
– Secured	**19,575**	20,231
– Unsecured	**819,882**	957,174
	839,457	977,405

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 subsidiaries of the Group, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. As at 30 June 2020 and 31 December 2019, none of the covenants relating to drawn down facilities had been breached.

17 TRADE PAYABLES

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Trade payables	**197,470**	284,215

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 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Within 1 month	**138,691**	217,106
1 to 3 months	**53,586**	60,613
Over 3 months	**5,193**	6,496
	197,470	284,215

18 OTHER PAYABLES AND ACCRUALS

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Other payables *(Note)*	**157,830**	216,268
Accrued expenses	**32,794**	42,712
	190,624	258,980

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 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Deferred consideration payable *(Note 14)*	**21,718**	56,623
Salaries, wages, bonus and benefits payable	**58,970**	77,626
Payables for purchase of property, plant and equipment	**13,716**	16,596
Contract liabilities	**8,904**	6,663
Other tax payable	**16,146**	11,070
Others	**38,376**	47,690
	157,830	216,268

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Dividend declared after the end of each reporting period of HK$0.024 per share (six months ended 30 June 2019: HK$0.04 per share)	**45,199**	75,332

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

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Dividend in respect of the previous financial year, approved and paid during the interim period, of HK$0.032 per share (six months ended 30 June 2019: HK$80.1 per share)	**60,265**	102,400

(b) Equity settled share-based transactions

On 28 June 2019, 30,230,000 share options were granted for consideration of HK$1.00 each to directors, senior management and employees of the Group in three tranches under the Company's employee share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on 28 June 2022, 28 June 2023 and 28 June 2024, and then be exercisable until 24 December 2022, 24 December 2023 and 24 December 2024 respectively in tranches. The exercise price is HK$2.40, being 20% discount to the initial public offering price of the Company's ordinary shares.

No options were exercised during the six months ended 30 June 2020 (2019: nil).

When the options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in capital reserve will be transferred to retained earnings.

20 COMMITMENTS

Capital Commitments outstanding not provided for in the interim financial report

	At 30 June 2020	At 31 December 2019
	HK$'000	*HK$'000*
Contracted for	**314,052**	225,351
Represented by:		
Construction of plants	**93,164**	65,908
Acquisition of machinery	**220,888**	159,443
	314,052	225,351

21 CONTINGENT LIABILITIES

(a) On 24 September 2011, a fire accident was incurred on the plant of 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) In addition to the litigations related to the Dissenting Payments as disclosed in Note 14, Shenhai Industrial received arbitration notice that on 8 October 2018 it 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 as mentioned in Note 21(a) above. 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. As of the date of this announcement, the arbitration has been pending hearing. 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.

22 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Pursuant to the board resolution on 13 August 2020, the directors declared an interim dividend of HK$0.024 per share. Further details are disclosed in Note 19(a).

23 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures. The management has implemented a series of operating cost and capital expenditure control measures in order to lower the breakeven point of operations, and preserve liquidity to weather the current economic crisis. The Group will keep the contingency measures under review as the situation evolves.

As mentioned in Note 11 to the interim results announcement, the Group performed impairment assessment of CGUs of Shenhai Group and Cengiz Makina at the end of the interim reporting period and an impairment loss against goodwill and other assets of HK$445,201,000 has been recognised in the consolidated statement of profit or loss for the six months period ended 30 June 2020.

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

Hong Kong, 13 August 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.