



鷹普精密工業有限公司
Impro Precision Industries Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1286

2019

**ENVIRONMENTAL, SOCIAL AND
GOVERNANCE REPORT**



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About This Report

SCOPE OF THE REPORT

This report is the first Environmental, Social and Governance (“ESG”) Report (the “Report”) issued by Impro Precision Industries Limited (the “Company”) to focus on the disclosure of the Group’s actions and performance in the aspects of environmental and social risk management during the period from 1 January 2019 to 31 December 2019 (the “Reporting Period”) to satisfy the expectations and requirements of the relevant stakeholders of the Group. The relevant policies, representations and information of ESG in this Report cover the Company and its subsidiaries, any content with a different scope of coverage will be specified in this Report. After assessment and discussions, considering that operations located outside China and Turkey have made relatively small financial contributions to the Group as a whole, therefore, their environmental data have not been included in this Report, but the Group will gradually include environmental data of operations located in other regions in future.

BASIS OF PREPARATION

This Report has been prepared with reference to the *Environmental, Social and Governance Reporting Guide* in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited issued by the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The contents of this Report are determined by systematic procedures. The relevant procedures include identifying and ranking important stakeholders and key issues relevant to ESG, determining the boundary of ESG report, collecting the relevant materials and data, preparing the report based on the data and reviewing the information contained in the Report.

RELEVANT ABBREVIATIONS

For the convenience of representation and reading, references made to the “Group”, “Impro Group” and “we” in this Report shall represent Impro Precision Industries Limited and its subsidiaries.

CONFIRMATION AND APPROVAL

This Report, after confirmation by the management, has been approved by the Board of Directors on 12 May 2020.

AVAILABILITY AND FEEDBACK OF THIS REPORT

This Report is provided to readers in both traditional Chinese and English version, we recommend the electronic version for reading based on environmental protection considerations, and the electronic version of this Report is made available under the category of “Financial statements/environmental, social and governance” of the Group on the Stock Exchange website or on the website of the Group. We highly value the opinions from the relevant stakeholders, and welcome readers to contact us through the following contact methods. Your opinions will assist us to further improve this Report and enhance the overall environmental, social and governance performance of the Group.

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Message from Our Chairman

On 28 June 2019, Impro Group was officially listed on the Main Board of the Hong Kong Stock Exchange. This represented not only high recognition of our operating strategy and philosophy but also the accumulation of power to further accelerate our development. As the world's 7th largest independent and China's largest investment casting component manufacturer, the Group has established strategic and long-term cooperative relationship with global recognized industrial leaders, and has passed their strict certification requirements. Driven by the requirements of various systems, we continue to optimize the quality of products and services with innovative technologies, initiate the creation of green and safe production environment with our sense of responsibility of a social citizen, attract excellent talents with incentive and supportive ideas, and contribute to the community.

By leveraging our strong product design and development capabilities, advanced technologies and professional knowledge, the Group strives to keep closely with the global industrial trend and manufactures products which can satisfy the changing demand and high-quality requirements of customers. Our quality service and outstanding performance in product quality have won the recognition and confidence from vast number of customers.

As a responsible corporate citizen, the Group strives to reduce environmental impact of our production by identifying and preventing factors in the production process which may generate environmental effects, insists on using energy and resources rationally, and reduces carbon emissions through various energy saving initiatives and lowering consumption.

Viewing safety as one of the six essential factors of achieving success, the Group has established a specialized occupational health and safety committee. We continue the 7S management concept of Impro, realize fundamental safety through technical advancement, and enhance the sense of production safety among employees in order to prevent work place accidents.

Human resources are the core successful essence for the future development of the Group, planning and nurturing a core team of business and management talents will be a century plan for us. Always adhering to diversified, open and inclusive employment principles, we respect and value the unique value of each staff. Through a diversified and professional platform, we assist our employees to have better career development and personal growth. Through the development of diversified staff communication activities, a more efficient working environment has been created, realizing mutual progress in our staff and the Group as a whole.

The footprints of the Group have reached different regions around the world and we endeavor to create value for the local communities in the places where we operate. Through localization in employment, more job opportunities have been brought to the place of operation. Moreover, through organizing public welfare and educational promotion activities on environmental protection, the awareness and knowledge brought to local residents have been enhanced.

In future, we will continue to provide our customers with high-precision, high-complexity and mission-critical products and one-stop solutions on the stage of the international capital market. We shall continuously utilize our global leading position to seize every opportunity, meanwhile to enhance the management and performance of sustainable development, and we hope to work together with customers, suppliers and other partners from different end markets and jointly contribute our efforts to a sustainable future blueprint.

LU Ruibo

Chairman and Chief Executive Officer

About Impro

Overview of IMPRO GROUP

Impro Group is a global leading manufacturer of high-precision, high-complexity and mission-critical casting and machined components, the world's 7th largest independent manufacturer¹ and China's largest manufacturer of investment castings¹, as well as the world's 4th largest precision machining company in the end-markets of automotive, aerospace and hydraulics¹. Our integrated business model and comprehensive capabilities of offering one-stop solutions to our customers have established our global leading position. On 28 June 2019, the Group was listed on the Main Board of the Stock Exchange with stock code of 1286.

OUR MISSION

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

OUR VISION

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

We have 15 production plants in China, Turkey, Germany, the Czech Republic and Mexico, which are supported by 9 sales offices in Mainland China, Americas, Luxembourg, Germany, Turkey and Hong Kong as well as warehousing capacities in China, Americas, Luxembourg and Turkey.



¹ Based on total revenue in 2018 according to the Roland Berger Report.

Our business objective is to reinforce our market position of being one of the world’s top precision component companies. To achieve this objective, we plan to:



About Impro

2019 Highlights of the Group



PRODUCTS

- Amortization of deferred expenses and research and development expenses amounted to HK\$ **178.0** million, representing **4.9%** of total revenue of the Group
- Total **334** registered patents, with **9** invention patents and **28** utility model patents being approved in 2019
- Occurrence of **0** material product return event
- Customers: **1,600+** customers located in **30+** countries and regions worldwide
- **8,000+** active SKUs, **1,000+** SKUs from aerospace end market; ~**1,000** new SKUs co-developed with customers in 2019



EMPLOYEES

- **7,100+** employees in **7** countries around the world, including **600+** engineers



ENVIRONMENT

- A total of **9** plants around the world have obtained ISO 14001 certification for environmental management systems
- Emission of greenhouse gases per unit revenue was **0.058** tonnes of carbon dioxide equivalent per HK\$1,000



SAFETY

- **0** case of work-related fatal incident



SOCIETY

- Amount of social welfare donations has reached HK\$ **1,000,000**
- Awarded the honor of "**Caring Company Logo**" in 2019/2020

Responsible Enterprise

1.1 RESPONSIBLE GOVERNANCE

Impro Group believes that employees, quality, safety, speed, cost and internationalization are the six basic essential factors to ensure the successful operation and development of the enterprise. We strive to maintain good and efficient corporate governance, strictly comply with the standards of business ethics, improve and enhance the effective system of rights and obligations continuously, implement a highly transparent operation structure and endeavor to be a responsible enterprise of high standards.

SIX ESSENTIAL FACTORS FOR THE SUCCESS OF IMPRO GROUP



CORE VALUES OF IMPRO GROUP



Responsible Enterprise

Integrity and Credibility

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

Diligence and Unity

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

Pragmatism and Efficiency

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

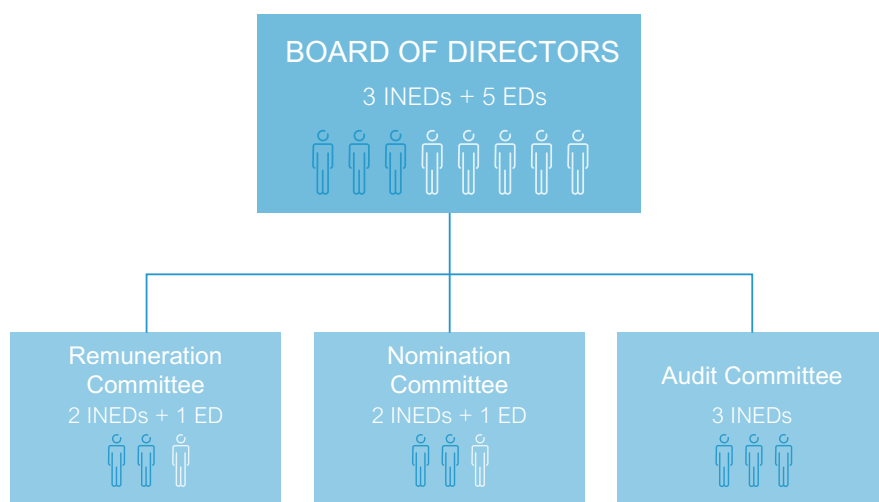
Pursuit of Excellence and Innovation

It means always carefully paying attention to details, looking for ways to improve on activities done in the past and challenging conventions and thinking outside of the box in all areas of the business. At Impro, the pursuit of excellence makes us stand out from others. We are committed to putting our all into every task we undertake, and making sure we strive for perfection. Innovation allows us to reframe problems and see solutions that others may not see. It is the way we continuously improve.

1.2 CORPORATE GOVERNANCE

The Group has strictly complied with the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange, has put in place an efficient corporate governance structure to safeguard the interests of shareholders and other stakeholders, enhance corporate value and transparency of management continuously. The Group strives to enhance corporate efficiency and management capabilities through the Board by formulating business strategies and management measures to seek higher standards of corporate governance constantly. The roles of Chairman and Chief Executive Officer are performed by the same person, this has critical importance in formulating the overall business development strategies and in operations, and is beneficial to the management of the Group. In addition, our long-serving and outstanding senior management team and our Board are comprising high-caliber individuals with extensive experience, providing check and balance on authority and power, thus our Board has fairly strong independence element in its composition. Meanwhile, we place high importance on diversity at the Board level and sustainable development, and our female members of the Board account for 25%.

The Board of the Group has established three committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The Audit Committee is mainly responsible for submitting the Group’s financial statements to the Board for approval regularly, reviewing and monitoring the execution of the Group’s financial control, internal control and risk management systems in accordance with applicable standards. The Remuneration Committee is mainly responsible for formulating and reviewing the remuneration policy and structure of the relevant Directors and the senior management, and to make recommendations to the Board regarding the remuneration package of individual directors and senior management members. The Nomination Committee is mainly responsible for reviewing the structure, size, composition and diversity of the Board, conducting assessment on the independence of the independent non-executive Directors of the Group, and making recommendations to the Board regarding the appointment or reappointment and succession plans of Directors.



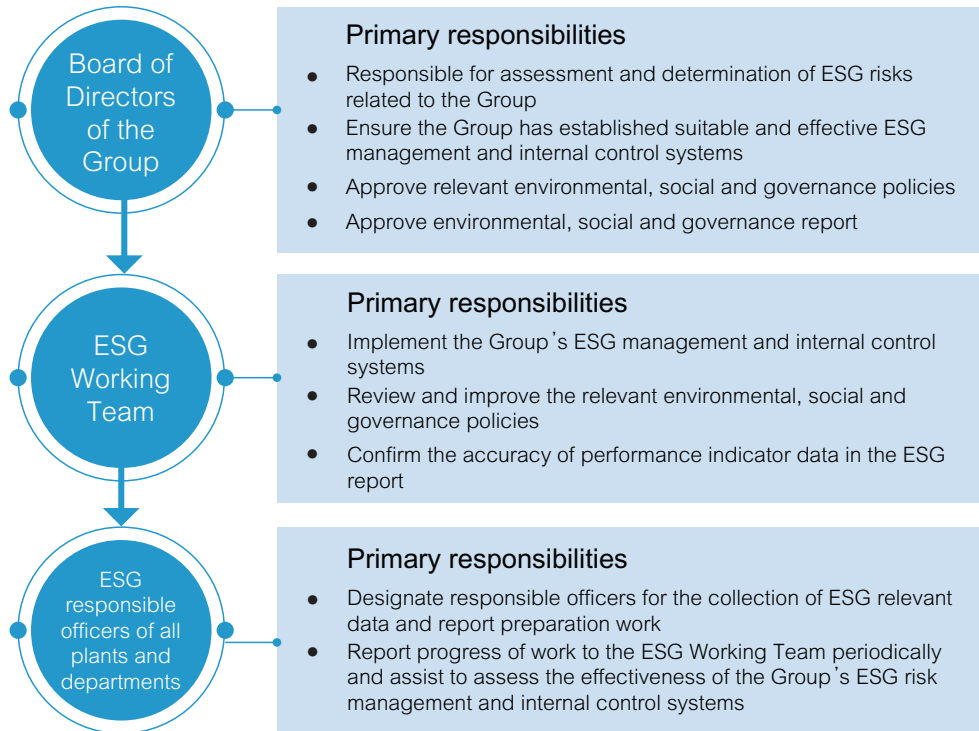
CORPORATE GOVERNANCE STRUCTURE OF THE GROUP

(Please refer to the Corporate Governance Report in the 2019 Annual Report of the Group for more details)

Impro Group has been seeking for natural, economic and socially balanced and harmonious development models in the course of operation, and moving forward by making continuous explorations in the aspects of environmental protection, technological advancement, employee development and community welfare, in order to pursue further comprehensive advancement of the community under the principles of maintaining sustainable economic development.

Responsible Enterprise

At present, the ESG structure of the Group is as follows:



To further reinforce ESG management of the Group and strengthen the awareness of ESG risks among employees, the Group has organized regular ESG training sessions and published internal bulletins to promote and provide guidance on ESG concepts and related work.



Internal Bulletin of the Group – Introduction and publicity of ESG management in Impro Daily

1.3 DETERMINATION OF MATERIAL ISSUES

Communication with Stakeholders

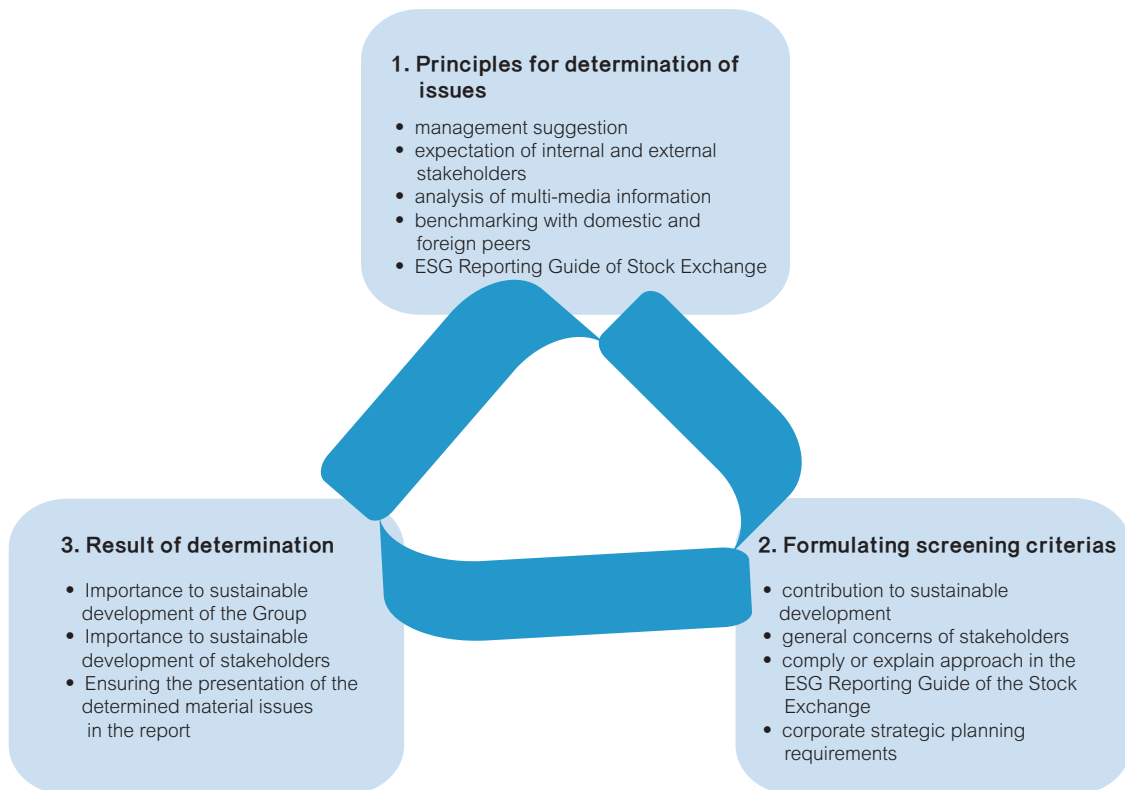
The Group has placed high importance on interactions with various stakeholders, and actively conducts regular and effective communications with stakeholders, understands the concerns of stakeholders, responds timely to comments of stakeholders, and adjusts its own development strategies. The Group has identified the following seven categories of stakeholders who have decision-making power and influence on the Group and are closely related to us.

The relevant channels are used to target at different stakeholders to acquire in-depth understanding on the needs of various parties and collect opinions, and active responses to opinions and requests of stakeholders are made through actions, to realize comprehensive sustainable development of the Group. The table below sets forth the communication channels and frequency of different stakeholders during the Reporting Period.

Category of Stakeholders	Communication channel/ Feedback method	Frequency/Times
Shareholders	<ul style="list-style-type: none"> – general meeting – interim/annual report – results announcement meeting – road show – plant visit – press release 	<ul style="list-style-type: none"> – regular – regular – regular – regular/irregular – regular/irregular – regular/irregular
Employees	<ul style="list-style-type: none"> – employee training – employee activities – employee satisfaction survey – employee interview – IOS announcement – internal bulletin 	<ul style="list-style-type: none"> – regular/irregular – regular/irregular – regular/irregular – irregular – regular/irregular – regular/irregular
Suppliers	<ul style="list-style-type: none"> – on-site investigation – assessment of suppliers – technical training – online/offline communication 	<ul style="list-style-type: none"> – regular/irregular – regular – regular/irregular – irregular
Customers	<ul style="list-style-type: none"> – customer satisfaction survey – handling complaints from customers – on-site visit – online/offline communication 	<ul style="list-style-type: none"> – regular – regular/irregular – regular/irregular – irregular
Community Public	<ul style="list-style-type: none"> – on-site survey – interview – community welfare activities 	<ul style="list-style-type: none"> – irregular – irregular – irregular
Media	<ul style="list-style-type: none"> – press release/announcement – press reporting – results announcement meeting 	<ul style="list-style-type: none"> – regular/irregular – regular/irregular – regular
Regulators	<ul style="list-style-type: none"> – press release/announcement – interim/annual report – regular communications 	<ul style="list-style-type: none"> – regular/irregular – regular – regular

Responsible Enterprise

To understand the expectations and needs of various stakeholders of the Group in the environmental, social and governance aspects, we have conducted in-depth communications with stakeholders in various fields through face-to-face communications, telephone interviews, on-site visits and other methods. At the same time, we have conducted online questionnaire surveys on both internal and external stakeholders to understand the views of various stakeholders on the importance levels of the relevant ESG issues, so as to assist us in formulating policies and provide a basis for the allocation of resources in future.

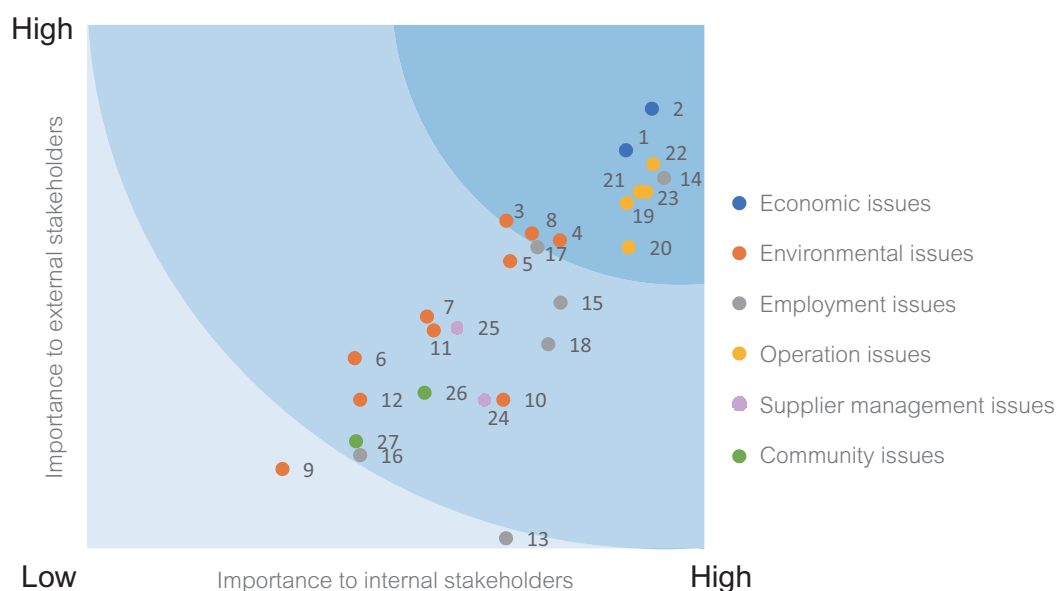


PROCESS FOR DETERMINATION OF MATERIAL ISSUES

Through the above assessment process, 27 ESG issues have been identified, of which 11 are issues with high importance which will be the key disclosure portions in this Report, we will provide detailed explanations in this Report.

Economic issues	Environmental issues
1 Financial performance 2 Corporate governance	3 Utilization of resources 4 Discharge of pollutants 5 Environmental impact on soil and ground water 6 Emission of greenhouse gases 7 Disposal of general solid waste 8 Disposal of hazardous waste 9 Use of packaging materials 10 Noise reduction 11 Green design 12 Climate change risk and actions
Employment issues	Operation issues
13 Employee remuneration and benefits 14 Health and safety management 15 Career development and training 16 Diversity and equal opportunities 17 Protection for human rights 18 Employee retention and turnover reduction	19 Product quality assurance 20 Customer privacy protection 21 Maintenance of customer relationship 22 Protection of intellectual property 23 Anti-corruption management
Supplier management issues	Community issues
24 Diversification and localization of suppliers 25 Management of supplier ESG performance	26 Contribution to community and charity 27 Community communication

Matrix of material issues:



Responsible Enterprise

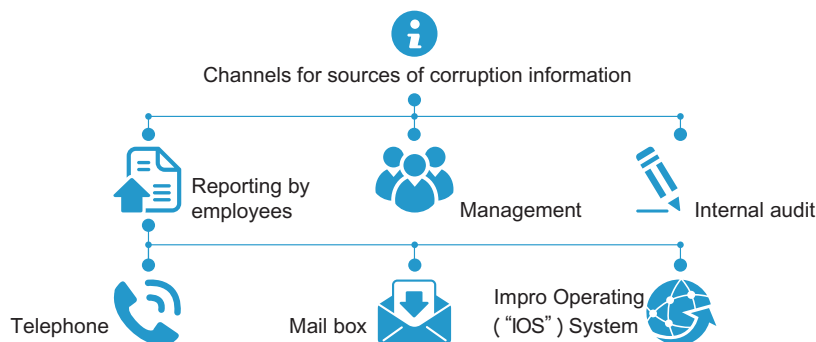
1.4 BUSINESS ETHICS

"Integrity and Credibility", being the foremost core value of Impro Group, is one of our basic ethical standards. We deeply understand the importance of the business ethics to the sustainable development of an enterprise.

We have strictly complied with laws and regulations, including the *Anti-Unfair Competition Law of the People's Republic of China*, the *Anti-Money Laundering Law of the People's Republic of China* and the *Interim Provisions on Banning Commercial Bribery*, and have established a series of internal policies, such as the *Reward and Punishment System* and the *Code of Conduct for Employees*. We have established various reporting channels for corruption cases, improved the investigation process for reported cases and the supervision process for corruption cases to regulate our commercial behaviors with cooperative partners and build a corporate image of integrity and credibility to prevent corruption, fraud or any misconduct against the interest of the Group. During the Reporting Period, we have conducted a number of anti-corruption training sessions, reinforced anti-corruption publicity and enhanced the awareness of anti-corruption and anti-bribery among employees. In October 2019, the headquarters in Hong Kong organized training sessions for the senior management on "Anti-Corruption Management Plan for Hong Kong Listed Companies" by inviting the Hong Kong Independent Commission Against Corruption as speaker.

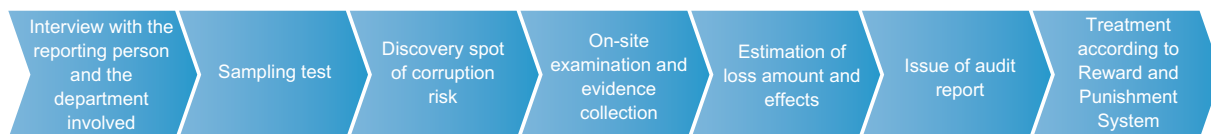
The Group has established the audit and supervision office to conduct internal review on various functional departments and subsidiaries at irregular intervals, and to monitor and investigate bribery and corruption cases while maintaining objectivity and independence, and will report to the Audit Committee and expand the scope of audit in a timely manner upon discovery of any material risk and deficiency in internal control.

There are three channels for ordinary sources of corruption information: (i) reporting, (ii) signals of corruption discovered by internal audit, (iii) management defects discovered by the management of the Group.



According to the different channels for sources of corruption information, we have established different investigation processes to ensure that various types of corruption cases will be handled quickly and efficiently.

Investigation process for corruption cases reported by employees



Investigation process for corruption cases identified by internal audit and the management



During the Reporting Period, the Group has not identified any cases relating to corruption.

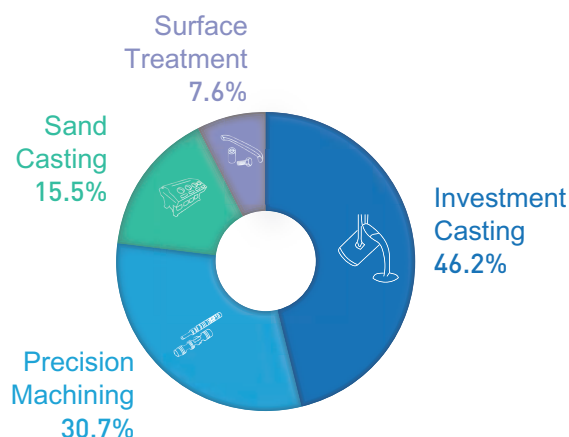
1.5 ECONOMIC VALUE

2019 Revenue by Business Segment

During the Reporting Period, our revenue was mainly generated from four business segments, namely investment casting, precision machining, sand casting and surface treatment.

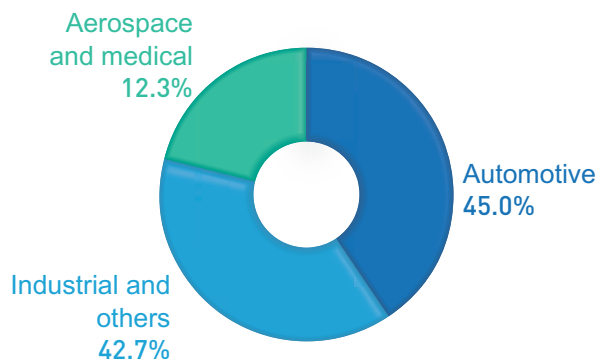
Revenue of the Group for 2019: HK\$3,640.2 million

CAGR from 2016 to 2019: 12.6%



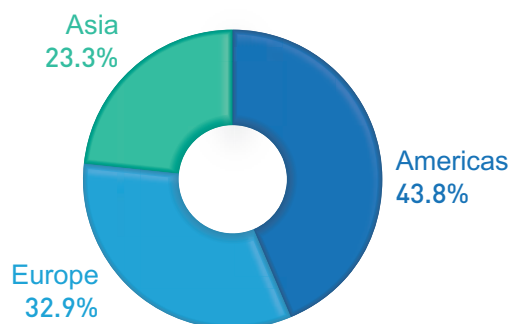
2019 Revenue by End-Market

During the Reporting Period, our sales to the strategic targeted end-markets included automotive (including passenger and commercial vehicles), industrial (such as high horsepower engines, hydraulic equipment, construction equipment and agricultural equipment, etc.), aerospace and medical end-markets.



2019 Revenue by Regional Market

During the Reporting Period, our sales are sold to 30+ countries covering worldwide including Americas, Europe and Asia.



Income Tax Expenses

The Group's income tax expenses for 2019 were HK\$99.5 million.

Achieve Excellence through Refinement and Innovation

As the world's 7th largest independent and China's largest investment casting component manufacturer, Impro Group has received many quality management certifications through its own stringent and continuous quality management work. In addition, we have researched and developed a series of advanced technologies and technical know-how. We have paid attention to details, made improvements, challenged conventions, and adopted completely new ideas in all business areas to provide one-stop integrated business solutions to diversified customer groups worldwide and established our global leading position.

2.1 QUALITY FIRST

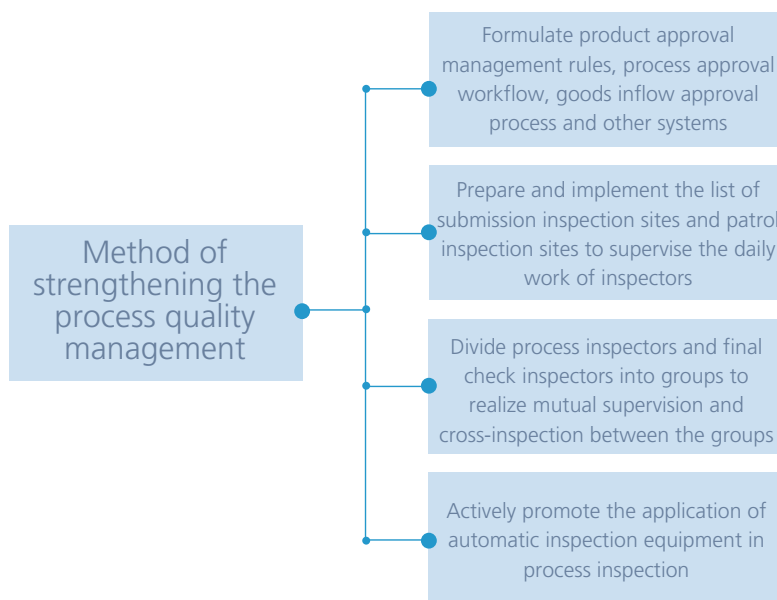
Quality Management

Quality is one of the six essential factors to the success of Impro Group. We strictly comply with the quality laws, regulations and standards at national level, in the place and industry where we operate, such as the *Product Quality Law of the People's Republic of China* and the *Standardization Law of the People's Republic of China* and optimize the quality management system continuously. We periodically review the latest released industrial standards and update our internal quality standards. Through PDCA (Plan-Do-Check-Act), we improve our product quality continuously, insist on satisfying the quality requirements from top-notch customers of various industries, keep on surpassing expectations of suppliers and set the industrial benchmark for quality level. Our quality management system has received system certifications from many industries, including:

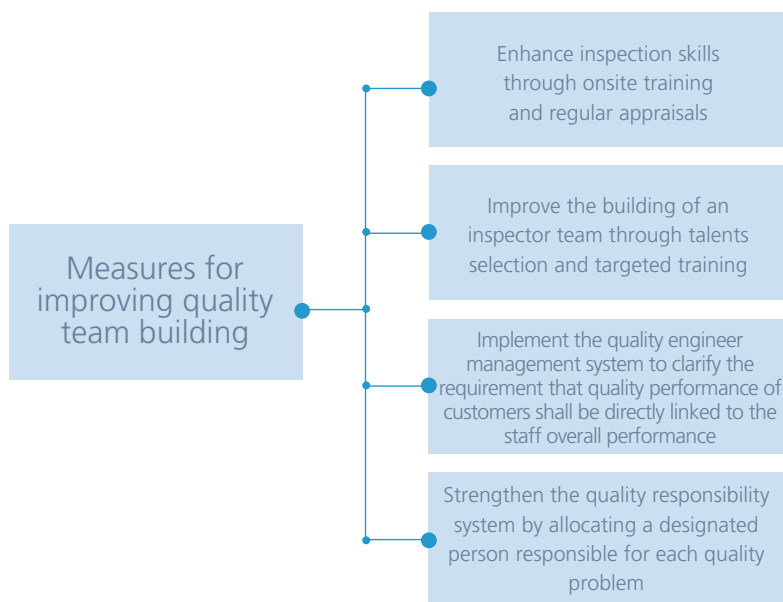


Driven by quality systems of various industries, the Group has formulated quality management processes target at the aerospace and non-aerospace production lines. All factories follow the uniform quality management procedures of the Group. During the course of implementation of quality management systems, relevant practice guidelines will be prepared to standardize the operations according to the different techniques applied in the production lines, including various processes such as inspection of raw and ancillary materials, inspection control during production process, product quality verification inspection, and exterior appearance inspections.

All factories focus on strengthening quality management of the manufacturing process, implement the process regulatory requirements consistently, organize regular inspections, and improve the process execution.



Meanwhile, all factories have further improved the building of quality teams to improve the capability of all employees, enhance the awareness of quality and refine the quality of products. As of 31 December 2019, our quality management team has comprised 831 employees, among them 99 were registered internal auditors of the quality management system, 18 were national certification experts in measurement surveying, 31 were national certification experts in examining chemical and mechanical properties, and 25 were non-destructive testing certification experts with national certified qualifications.



Achieve Excellence through Refinement and Innovation

Quality Management Practice of Cengiz Makina, our subsidiary in Turkey

The factory of Cengiz Makina (“**Turkish Factory**”), the Group’s subsidiary in Turkey, has established 24 quality management systems, including the *Quality Handbook*, *Technical Process Inspection Workflow Plan* and the *Control Procedures for Inspection, Measurement and Testing Devices*, under the requirements of IATF 16949 Automobile Quality Management System standard and ISO 9001 Quality Management System standard. According to the requirements from different customers, the Turkish Factory has formulated the critical performance indicators for quality management in 2019 and performed real-time tracking on the achievement of the indicators.



ISO 9001 Certificate of
the Turkish Factory



IATF 16949 Certificate of
the Turkish Factory

In order to better identify and eliminate the problems in each step of the technical process, the Turkish Factory has formulated the “14Q” principles based on the major quality problems encountered previously. The “14Q” principles cover each step in the production process that may potentially affects the product quality, including technical parameters, testing equipment indicators, product label, scrapping of deficient products, warranty and maintenance aspects. The Turkish Factory has adhered to these principles consistently and has erected the “14Q” sign board in the factory zone to remind employees about quality awareness to realize zero deficiency.

Quality Enhancement

Based on the quality management system of the Group, we also introduced automatic equipment during the Reporting Period, established a factory quality management board and organized all kinds of quality enhancement thematic activities, so as to enhance the product quality from both “hardware” and “software” aspects.

Automated equipment introduced in various factories in 2019:

1. The automatic line of Wuxi Impro-Bees Precision Bearing Co., Ltd. that provides one-stop assembling, cleansing and testing processes increased efficiency by 20% and eliminated the potential risk of omission in assembly
2. The application of wheel hub automation equipment by Nantong Shenhai Science and Industrial Technology Co., Ltd., has decreased the defective ratio from 0.25% to 0.1%
3. The one-key imaging automated testing equipment of Impro Industries (Yixing) Co., Ltd. has improved the efficiency by 50% than manual testing

Quality Awareness Enhancement Activities Organized by Factories



Quality and Safety Awareness Training Activities



Monthly Quality Meeting

Moreover, we have also established relevant systems, including the *Product Approval Management Rules*, *Control Rules for Deficient Products* and *Treatment of Customer Complaints and Returned Products*, to ensure the product qualifying rate as well as to safeguard the interest of customers. Returned products due to quality problems will be labelled, segregated and examined by the Quality Control Department, then the fish-bone chart and other methods will be used to analyze the fundamental reasons of the problems, effective improvement measures will be adopted, and the analysis report will be submitted to the general manager and the relevant departments, both internal and external verifications will be conducted until no more similar complaints or feedbacks are received from customers before this problem can be concluded. During the Reporting Period, no significant event of returned products had occurred in the Group.

2.2 SCIENTIFIC RESEARCH AND INNOVATION

Under the guidance of the corporate core value of “Pursuit of Excellence and Innovation”, the Group has been enhancing its research and development capabilities and innovative technical level to reinforce our competitive advantages and industry leading position. We have been optimizing the organization structure of research and development and have established the Research and Development Centre. We have adopted the order-oriented research and development strategy and optimized the production techniques for different customized products. We have provided continuous project support to customers to assist in product design and have participated actively in the product development conducted by customers, from the initial stage of product design and development (such as sample development) by the customer to after-sales services. We have long-term cooperation with third-party universities and research institutes to jointly develop certain production technologies.

Research and Development Centre of Impro Group

The Research and Development Centre of Cengiz Makina, our subsidiary in Turkey, was approved by the Turkish government in 2014 to be an official research and development centre. The Research and Development Centre has entered into many cooperation projects with various universities in Turkey, including improving cost and quality of automated systems, provision of visual and 3D control automated loading and unloading systems to reduce manual operation and human errors, as well as developing other new products.

During the Reporting Period, we combined our existing research and development centres into the new Cengiz Makina Research & Development Centre and commenced operation to provide laboratories, assembly space and office space. The Cengiz Makina Research & Development Centre continued cooperating with higher education institutions and has participated in various kinds of research and development projects.

Achieve Excellence through Refinement and Innovation

Impro Additive Manufacturing Centre

The Group has started our research progressively on the application of additive manufacturing (or known as “3D printing”) technology in the casting technical process since 2012, and gradually utilized the technology in our casting production process. We have entered into joint cooperation and development with a number of prestigious institutions and enterprises, including the University of Michigan in USA, to conduct research on the development trend of additive manufacturing, and explored its practical application in sand casting and investment casting by focusing on fast sample development and bulk production. Now, the Group has already possessed one-stop processing capabilities covering 3D printing of wax mould and sand core to realize fast sample development and small bulk production capacity for better fulfilling customers’ flexible and speedy research and development requirements. Viewing from the cases in the Reporting Period, the Group was able to shorten the development cycle of investment casting by approximately 37.5% by using 3D printing technology in comparison with the conventional process. This fast sample development capability is particularly suitable for use in the small batch, diverse varieties and highly complicated aerospace and industrial sectors.

In 2019, the Group increased investment in innovative research and development, self-designed and developed investment casting tools, and shortened the product development cycle significantly. During the Reporting Period, amortization of deferred expenses and research and development expenses reached HK\$178.0 million, or 4.9% of the total revenue of the Group.

In the course of reinforcing innovative research and development, we pay attention to the protection and management of intellectual property. The Group strictly complies with the *Patent Law of the People’s Republic of China* and the relevant laws, regulations and standards relating to intellectual property in the countries, places and industries where we operate, and we have established the *Intellectual Property Management System* to focus on regulating the application, management, confidentiality, maintenance, reward and punishment of intellectual property, increase the protection on intellectual property for the Group and the relevant parties, encourage inventions and other intelligent creative activities, promote the employees’ motivation to invent and create, and create a good innovative environment to facilitate technological innovation of the company.

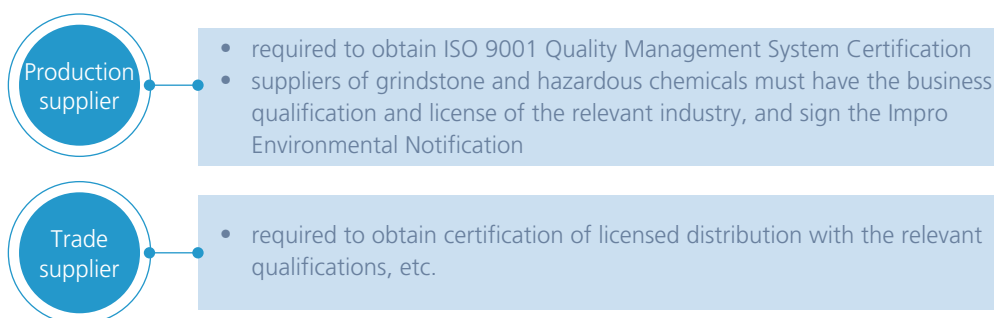
Some critical patents, commercial secrets or skills relating to our production, sales and marketing are very important to our business and competitive position. We rely on the patent and commercial secret laws and the confidentiality and non-competition agreements signed with our employees to protect such intellectual properties, commercial secrets and technical know-how. Our significant trademarks are registered in different countries (including China, USA, Switzerland, Europe, Hong Kong and Turkey).

During 2019, we obtained approvals for 9 invention patents and 28 utility model patents. As of 31 December 2019, we have obtained a total of 334 patents in China.

2.3 COOPERATION FOR MUTUAL BENEFITS

Supply Chain Management

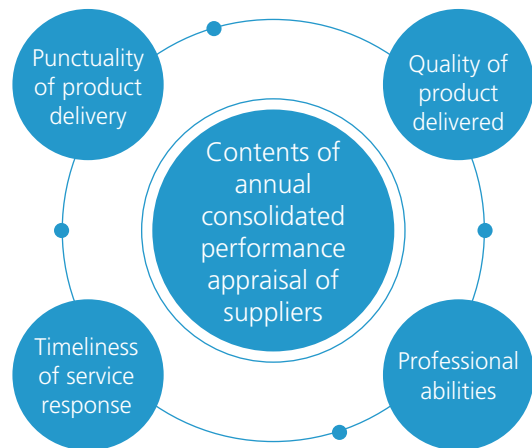
Stable quality from suppliers is the important foundation for our continuous supply of quality products and services. The Group has formulated the *Supplier Management Procedure* to ensure the quality and punctual delivery of supplied materials through whole-process supply chain management.



Impro Group's Management Requirements for Suppliers

During the Reporting Period, we have classified the suppliers into categories and grades according to the characteristics of the products required by Impro Group: each category of suppliers has 4 grades, including premium supplier, qualified supplier, pending supplier and eliminated supplier. Apart from conducting annual appraisal on consolidated performance of suppliers, we also conduct monthly tracking on the quality passing rate of suppliers. If quality problems occur 2 to 3 times consecutively, we will downgrade the supplier and require rectification to be performed by the supplier.

In addition, we conduct on-site assessment on suppliers on an annual basis, and appraisal will be conducted on the aspects of, inter alia, company management, personnel deployment, production capability, product supply capability, quality assurance, operation stability and EHS (environment, health and safety). Suppliers with higher level of professionalism will be selected with priority, suppliers with lower technical skills and insufficient production capacity will be phased out gradually, and suppliers with stronger professionalism will have higher weighting for business opportunity.



EHS Appraisal on Suppliers conducted by the Turkish Factory

In order to strengthen management of suppliers in the aspects of environmental protection, occupational health and safety, our Turkish Factory requires all potential suppliers to perform self-appraisals on their existing EHS status before the selection process to effectively acquire basic information on the EHS compliance level, EHS emergency management capability, EHS risk awareness, EHS equipment capacity and EHS training activities of the suppliers.

Meanwhile, in order to strengthen the integrity of supply chain, the Supplier Code of Business Principles has to be signed by all suppliers as one of our admission conditions. During the Reporting Period, 100% of suppliers have already signed the Supplier Code of Business Principles.

As of 31 December 2019, the Group has had a total of 1,965 suppliers for the headquarters and subsidiaries in China and Turkey, of which 1,081 suppliers were of China and 884 suppliers were of Turkey.

For the purpose of assisting the suppliers to grow simultaneously with Impro Group and facilitate interactions with suppliers, we have actively participated in the interactive activities organized by the suppliers, themes of the activities include refined management for cutting fluid, knowledge of paints, basic knowledge of cutting tools and knowledge of silica sol, as well as open day activities of different types of supplier enterprises.

Customer Service

The Group supplies products and services for diversified end-markets and has a growing extensive customer base in high-growth industries. According to the end-markets, we divide customer service management into: industrial, aerospace, automotive and special technical sectors. We have established a vertical integrated business model, covering the value chain of precision components. We possess the capabilities from casting to machining, surface treatment and after treatment, so that we can provide customized and instantly available products and services for our customers, thus significantly simplify the supply chain of our customers.

We highly value our communication and interaction with customers, and believe that regular interaction is the cornerstone for maintaining good cooperative relationship. During the Reporting Period, we participated in a series of training and technological knowledge exchange activities organized by the customers, and through Electronic Data Interchange (EDI), we obtained timely change in demand conditions of their product markets, so as to adjust our production plan in a timely manner.

Achieve Excellence through Refinement and Innovation

Impro Aerospace Components (Wuxi) Co., Ltd. participated in the Zero Defects Program training activities of Parker Hannifin in Singapore



To maintain daily interaction and communication, we conduct customer satisfaction survey at the end of each year, the survey contents cover delivery performance, quality performance, project development capability, service and audit aspects. Upon receipt of the survey results, we will summarize the scores and conduct analysis, the respective analysis report and the original of the customer satisfaction survey form will be provided to the respective factory, and the factory will formulate an improvement plan according to the results and the plan will be implemented by tracking until completion.

Opinions of customers indicate the direction of our continuous improvements. The Group has formulated systems, including the *Management Rules for Handling of Customer Complaints* and the *Control Procedure for Customer Communication*, to regulate the complaint handling process for timely and effective treatment of customer complaints in accordance with the rules.



We strive to protect the intellectual property and other proprietary rights of customers, and have implemented stringent procedures to safeguard the customers' intellectual property and keep customers' information (particularly information of their product design) confidential. Such procedures include:

- Unauthorized persons are forbidden to enter the storage area of confidential information
- Each employee must keep confidential information properly
- Confidential information may be read, used or released only after completion of certain procedures
- The relevant confidential documents and media are forbidden to leave the factory without authorization

Any relevant person who has violated the above procedures will be disciplined by the Group according to the reward and punishment system. Every customer of the Group will be assigned a customer number, the information of products and orders of such customer will be managed by a designated team and the information of each customer will be kept strictly confidential.

Through comprehensive unremitting efforts, we won recognition from customers and received a number of excellent supplier awards during the Reporting Period.

Awards received by Impro Group from Customers



2019 "Preferred Supplier" Award presented by Modine



Outstanding Supplier Award presented by Hitachi Instruments



Outstanding Supplier Award presented by Sany Heavy Machinery



APAC Supplier Excellence Award presented by Honeywell

Progress of the Industry

As an industry leader, while concerning for itself, upstream and downstream enterprises of the supply chain and customers' needs and development, the Group has participated in industry association and industrial activities actively and dedicated efforts to promote reforms and progress of the whole industry.

As of 31 December 2019, the Group has joined the following associations:

China Foundry Association	Jiangsu Province Surface Treatment Association
China Die & Mould Industry Association	China Foundry Association Investment Casting Branch
China Nuclear Energy Association	China Association of Agricultural Machinery Manufacturers
China Association of Automobile Manufacturers	China Construction Machinery Association
China Association for Medical Devices Industry	Jiangsu Province Foundry Association

Achieve Excellence through Refinement and Innovation

During the Reporting Period, we actively participated in the activities of a number of industries around the world to promote interactions of the industries.

Asia	17th Metal+Metallurgy China 2019 The Third Yangtze River Delta Electroplating, Coating and Surface Treatment Exhibition in 2019 The 15th Annual Congress of China Foundry Association 2019 The 16th Conference of Investment Casting (Impro China was the organizer of this annual conference for its capacity of being the rotating chairman of the 8th Session of the Council of the China Foundry Association Investment Casting Branch)
Americas	SAE International 2019 Commercial Vehicles Engineering Exhibition AeroDef Manufacturing Exhibition 2019 Offshore Technology Conference
Europe	Aerospace Forum Birmingham The Paris Air Show 2019 NEWCAST Dusseldorf International Trade Fair for Castings
Turkey	Beckhoff IoT Seminar Energy Efficiency Forum Frankfurt IAA 2019

Impro Group participated in the 17th Metal China 2019 Expo and received the “Quality Casting Golden Award Special Prize”

The “aircraft engine fuel system parts” of Impro Group won the “Quality Casting Golden Award Special Prize” in the Metal China Expo, being the only winner among investment casting participants, out of over 200 products from 154 enterprise applicants, due to larger size, complicated shape and cavity, less than 2mm in wall thickness, high requirement of non-destructive testing acceptance and minimal tolerance requirement.



Impro Group won the “NEWCAST Award” 2019 in the NEWCAST Dusseldorf International Trade Fair for Castings

The award-winning casting product of Impro Group has fully utilized the advantages of investment casting technology, when combined with the utility function of the product, an innovative and optimized structure is created which is 66% lighter in weight than the prototype design replaced by it, while realizing the manufacture of a light-weight casting product, production efficiency has been boosted significantly at lower cost.



Green Footprints to Beautiful Ecology

Impro Group is a responsible corporate citizen to the society. Green and low-carbon emissions have reflected our operating principles. We strive to minimize the negative impact of every step of our production process on the environment, improve the performance of environmental management continuously and drive our green footprints to build a beautiful ecological environment.

3.1 ENVIRONMENTAL MANAGEMENT

The Group strictly complies with the environmental laws, regulations and standards of the industry in the places where we operate, including the *Environmental Protection Law of the People's Republic of China*, *Clean Production Promotion Law of the People's Republic of China* and *Environmental Law of Turkey*. The Group's nine production plants located in China, Germany and Turkey have already passed and obtained the ISO 14001 Environmental Management System Certification and have established their environmental protection management systems on this basis to compile the *Environmental Handbook* and the *Turkish Factory Environment and Occupational Health Handbook* under the environmental protection management systems and set up the annual environmental target and management plan to ensure the continuous improvements of the environmental management systems. Meanwhile, we have established the implementation team for environmental protection management, which is mainly responsible for identifying factors in the production process that may have environmental impact and setting up preventive measures. The team is also responsible for professional treatment of waste, closely monitoring changes in the local environmental laws and regulations, and updating the internal production requirements accordingly. During the Reporting Period, we were subject to one environmental penalty. After occurrence of the incident, we have commenced investigation on a timely basis, rectification plans have been formulated to address the specific causes and the rectification measures have been implemented. At the same time, we have further strengthened the daily environmental protection supervision and rectified non-compliance acts timely to prevent environmental protection risk.

During the Reporting Period, our efforts in environmental protection management also received respective recognition.



In March 2019, Wuxi Impro-Bees Plating and Painting Co., Ltd. received the honour of 2018 Jiangyin City Advanced Enterprise in Ecological Civilization Construction



In January 2019, Wuxi Impro-Bees Plating and Painting Co., Ltd. received the 2018 Environmental Protection Advancement Award

Green Footprints to Beautiful Ecology

3.2 ENERGY SAVING AND CONSUMPTION REDUCTION

Energy Management

We insist on utilizing energy rationally in the product manufacturing and cleaning process, and perform regular tracking on the allocation of energy utilization on a monthly basis to ensure that energy resources used for production and operation are safeguarded. During the Reporting Period, we adopted various kinds of measures in our factories to strengthen energy management.

On conservation of electricity, we have adjusted not only the utilization time of equipment, but we have also upgraded the equipment to enhance the power utilization efficiency:

1. In winter, the main unit of central air conditioner stopped operation and fresh air was transmitted to the workshop for cooling purpose
2. Frequency converter was installed in the cooling water pump, the motor frequency was adjusted according to temperature changes
3. Purchase of inverter air compressor
4. Utilization of latest energy-saving furnace using imported insulation cotton materials and highly efficient energy-saving heating coil
5. Using LED light bulbs

To lower natural gas consumption of the baking furnace, we utilize the energy-saving baking furnace and fill up the shell fully before the end of the work shift to maintain the temperature. Moreover, we wash the spherical heat accumulator used in the baking furnace regularly to increase the heat conservation effect and utilize the warmth of residual heat. During the Reporting Period, we also added a testing device to prevent natural gas leakage, the consumption of natural gas was controlled effectively and reduced wastage.

For steam consumption, we have reduced consumption by installing the following equipment:

1. Installation of inlet trap valve to reduce loss of steam
2. Replacement of pressure regulator valve of the main pipe to reduce pressure and loss of steam
3. Installation of energy-saving dewaxing equipment

During the Reporting Period, the energy consumption of the Group was as follows:

Energy Consumption

Type	Consumption	Unit
Purchased electricity	22,721	10,000 kWh
Natural gas	441	10,000 m ³
Purchased steam	71,342	Tonne
Diesel	527	Tonne
Gasoline	87	Tonne
Direct energy consumption ²	6,761	Tonne of standard coal
Indirect energy consumption ³	37,098	Tonne of standard coal
Total energy consumption	43,859	Tonne of standard coal
Total energy consumption per unit revenue	0.013	Tonne of standard coal/HK\$1,000

Water Resources Management

We have been adjusting the composition of water utilization continuously, improving the water utilization approach, and adopting water conservation technology actively to increase the utilization efficiency scientifically and avoid wastage of water resources. We use treated concentrated water for flushing toilets, dosage recycled water and washing sewage devices, and continue to increase the recycled water facilities. Moreover, we recycle water by filtration, industrial waste water is treated in centralized facilities before recycling, cooling channel cover plate and temperature control system are installed on the cooling tower to reduce water evaporation.

Water conservation methods



Filtration of recycled water



Industrial waste water was treated in centralized facilities before recycling

² Direct energy consumption includes natural gas, diesel and gasoline consumption.

³ Indirect energy consumption refers to the consumption of electricity and steam purchased from external parties.

Green Footprints to Beautiful Ecology

During the Reporting Period, the status of water resources consumption of the Group was as follows:

Water resources consumption

Type	Consumption	Unit
Fresh water consumption ⁴	1,371,618	Tonne
Water consumption per unit revenue	0.420	Tonne/HK\$1,000

Packaging Materials Management

The packaging materials used by the Group in the production process mainly include corrugated carton, foam paper, blister boxes, packing bags and Chalmers, etc. We perform regular tracking on the consumption of packaging materials on a monthly basis to avoid wastage of packaging materials.

3.3 LOW CARBON AND EMISSION REDUCTION

Greenhouse Gases Emission Management

We reduce emission of greenhouse gases through conservation of energy and reduction in consumption. During the Reporting Period, the emission of greenhouse gases by the Group was as follows:

Greenhouse gases emission⁵

Type	Consumption	Unit
Scope 1 greenhouse gas emission	11,456	Tonne of carbon dioxide equivalent
Scope 2 greenhouse gas emission	176,595	Tonne of carbon dioxide equivalent
Total greenhouse gas emission	188,051	Tonne of carbon dioxide equivalent
Greenhouse gas emission per unit revenue	0.058	Tonne of carbon dioxide equivalent/HK\$1,000

Waste Management

The Group has formulated the *Solid Waste Management Rules* to clarify the treatment process of wastes and has engaged professional waste treatment companies to collect and dispose of various kinds of wastes. We divide the wastes into recyclable waste, general industrial solid waste, household waste and hazardous waste. During the Reporting Period, we upgraded the equipment to reduce environmental impact and effectively reduced the discharge of hazardous waste. The Turkish Factory replaced the original bags for collecting hazardous waste with IBC barrels during the Reporting Period, not only IBC barrels could be recycled, leakage of waste oil was also effectively avoided.

⁴ Fresh water comes from the municipal pipeline network.

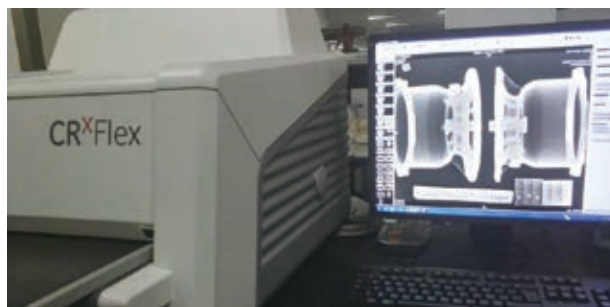
⁵ The emission of greenhouse gases from Chinese factories is calculated with reference to the Guidelines on Computation and Reporting of Greenhouse Gas Emission by Enterprises in Other Industrial Sectors (Trial) issued by the National Development and Reform Commission of the People's Republic of China and the Turkish Factory has made reference to the 2015 Guidelines on Conversion Factors of Greenhouse Gas Emission for Company Reporting issued by the Department for Environment, Food and Rural Affairs and the Department of Energy and Climate Change of the United Kingdom.

Sludge compression device of Wuxi Impro-Bees Plating and Painting Co., Ltd. has reduced the volume of sludge generation

Wuxi Impro-Bees Plating and Painting Co., Ltd. used secondary pressurization membrane filter press to replace general plate and frame filter press, water content of sludge decreased from about 80% to about 60%, reducing the volume of sludge generation by 10%.

Impro Aerospace Components (Wuxi) Co., Ltd. replaced conventional films with electronic films to reduce generation of waste development and fixative solutions as well as treatment and discharge of waste water

Since 2018, Impro Aerospace Components (Wuxi) Co., Ltd. began to apply the system consisting of CR^xFlex of digital ray hardware GE and the software of Rhythm review and Rhythm RT to replace the conventional film development technique. When compared with the method for conventional films, digital film will produce 50% less in waste films after film exposure. In addition, digital film uses computer-aided scanning and completely eliminates the development and fixation operations for conventional films, hence the use of chemical development and fixative solutions is 100% avoided, while the generation of waste development and fixative solutions as well as the treatment and discharge of waste water are reduced at the same time.



Wuxi Impro-Bees Precision Bearing Co., Ltd. and Impro Industries (Yixing) Co., Ltd. utilize cutting fluid distillation and recovery equipment to reduce the final disposal volume of cutting fluid

The cutting fluid distillation and recovery equipment, by using the vacuum low-temperature distillation method to separate the water and original cutting fluid blended in the waste cutting fluid, and the water will be reused for blending with the next batch of cutting fluid, the remaining concentrated cutting fluid will be disposed by external agent as hazardous waste to reduce the ultimate generation volume of hazardous waste. The equipment can process 110 kg per hour and the concentration effect is over 90%.

Green Footprints to Beautiful Ecology

During the Reporting Period, the wastes generated by the Group were as follows:

Wastes

Type	Total volume	Unit
Hazardous waste	2,423	Tonne
Hazardous waste per unit revenue	0.742	kg/HK\$1,000
Non-hazardous solid waste	39,432	Tonne
Non-hazardous solid waste per unit revenue	12.074	kg/HK\$1,000

Pollutants Discharge Management

Our discharged waste water is mainly generated from the dewaxing, surface treatment and cleansing in the production process, while waste gases are generated from core manufacturing, shaping, sand shakeout, shot blasting, shell making, calcination, smelting and surface treatment. We strictly comply with the relevant laws, regulations, standards and requirements in accordance with the *Water Pollution Prevention and Control Law of the People's Republic of China* and the *Atmospheric Pollution Prevention and Control Law of the People's Republic of China*, and we have formulated the *Waste Gas Emission Management Rules* and the *Waste Water Discharge Management Rules* after taking our production process into consideration. We monitor, measure and analyze the waste gas emission and waste water discharge at regular intervals to ensure the emitted or discharged contents have complied with the required standards.

During the Reporting Period, Wuxi Impro-Bees Plating and Painting Co., Ltd. streamlined the waste water classification of production lines comprehensively and performed online monitoring. In order to ensure the discharge of rainwater has reached the required standard, Nantong Shenhai Science and Industrial Technology Co., Ltd. installed rainwater pump and COD online monitoring equipment at the rainwater collection pond and rainwater satisfying the monitoring standard was pumped into the rainwater drainage pipes within the park zone to prevent environmental pollution effectively in areas outside the park zone. Meanwhile, all production lines and environmental protection equipment of Wuxi Impro-Bees Plating and Painting Co., Ltd. and Nantong Shenhai Science and Industrial Technology Co., Ltd. were controlled by one button operation to ensure simultaneous operation of the production lines and the environmental protection equipment. An alert device was also installed in case the environmental protection equipment broke down, so that the production lines could not commence operation.

Impro Industries (Yixing) Co., Ltd. performed brand new technical reforms and waste gases were discharged at required standards

After collecting uncontrolled waste gases emitted, Impro Industries (Yixing) Co., Ltd. filtered such gases through the following three types of installed environmental protection devices for treatment:

1. The mechanical core manufacturing area is equipped with smoke and dust removal system to collect the smoke and dust generated from the core manufacturing process for filtering before discharge
2. Install dust removal system on the intermediate frequency furnace to collect the dust generated in the molten iron smelting process for discharge after treatment
3. Install smoke removal system on the baking furnace to collect the smoke generated from the baking furnace for pre-treatment by photo-oxidation, and then discharged after passing through the active carbon treatment process

Impress Impeller (Yixing) Co., Ltd. installed modular type of environmental protection equipment on the sandblasting machine for treatment of flying dust

The pipelines of five sandblasting machines of Impress Impeller (Yixing) Co., Ltd. are centralized on the main pipeline of the environmental protection equipment, hence the dust and particulates generated in the sandblasting process are captured through the dust bag filter and vibrations.



During the Reporting Period, the pollutants discharged by the Group were as follows:

Pollutant Discharge

Type	Discharged volume	Unit
<i>Exhaust emission</i>		
Nitrogen oxide	810	kg
Sulfur dioxide	2,869	kg
Particulates	23,063	kg
<i>Waste water discharge</i>		
Total waste water	742,668	Tonne
Chemical oxygen demand	39	Tonne
Ammonia-nitrogen	2,564	kg

Safety in Production, Guidance of Responsibility

Safety is one of the six essential factors contributing to the success of Impro Group. We believe that paying continuous attention to occupational health and safety of employees, ensuring compliance with standard operation and relevant rules by employees, constantly improving and enhancing internal control and adopting risk control measures are the important means for us to achieve long-term development in the industry.

4.1 SAFETY MANAGEMENT

The Group strictly complies with the laws, regulations and standards relating to occupational health and safety at national, regional and industrial level, including the *Production Safety Law of the People's Republic of China*, the *Law on Prevention and Control of Occupational Diseases of the People's Republic of China* and the *Law on Occupational Health and Safety of Turkey*. We keep on promoting the ISO 45001 and OHSAS 18001 occupational health and safety management systems in all the factories, and have formulated the *EHS Control Framework for the China Region of Impro* to perform the stringent safety policy consistently in the production process. We have dedicated full-time internal occupational safety officers in most of our production plants as well as full-time or part-time safety management officers in all the production plants. Moreover, we have established the Production Safety Committee to provide guidance on occupational health and safety tasks in the work place.

The Group has adopted the 7S management concepts in the entire process of business operation. These management concepts are based on the widely accepted 5S workplace organization methodology, namely, Sort (Seiri), Set in Order (Seiton), Shine (Seiso), Standardize (Seiketsu) and Sustain (Shisuke). We have further expanded the 5S method by including Safety and Saving in order to provide a safe, comfortable and bright working environment for employees.

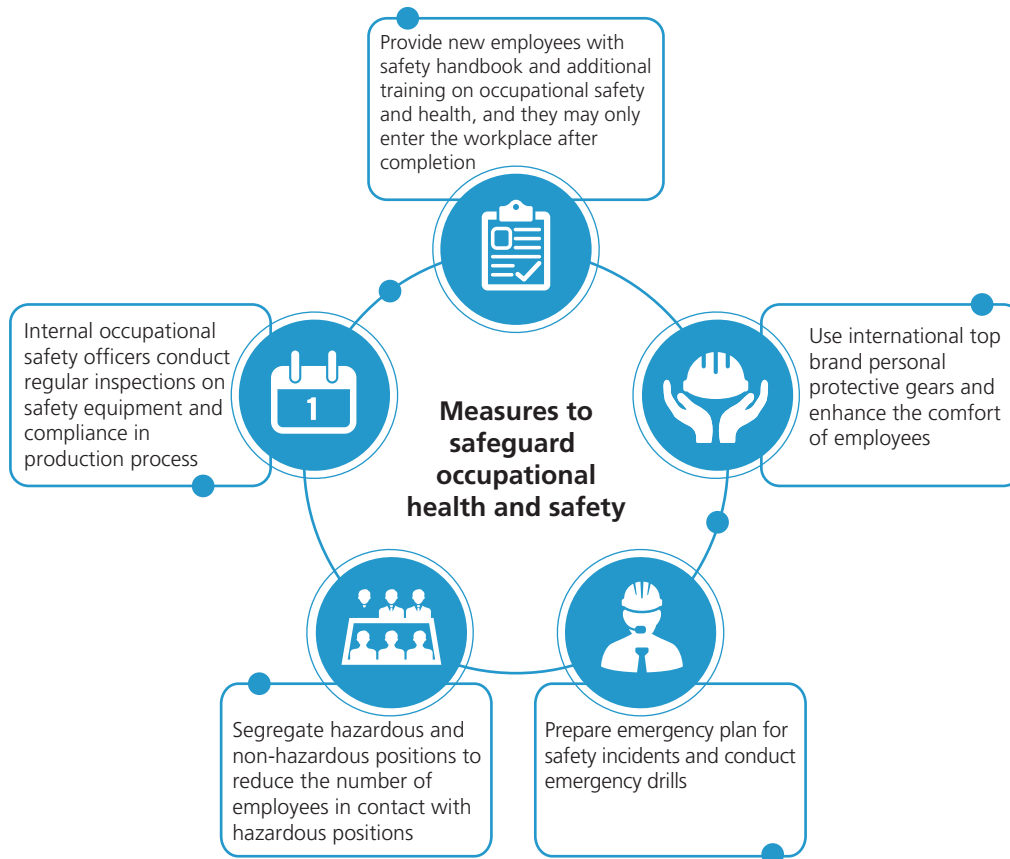


"7S" Display Board

During the Reporting Period, there was no occurrence of work-related fatalities in the Group, but there was a total of 1,391 lost days of work due to workplace injuries happened in the factories of China and Turkey. After occurrence of the work-related injuries, the department concerned immediately reported the cases to the EHS department and the department heads, and submitted a written investigation and analysis report on the incidents. After that, the EHS department presented a briefing on the incidents, and was in charge of tracking the progress of completing the rectification measures, and prepared a full report.

4.2 SAFETY MEASURES

Driven by the ISO 45001 and OHSAS 18001 Occupational Health and Safety Management Systems, we have been improving the occupational health and safety environment continuously and have effectively prevented workplace accidents.



Factories enhance fundamental safety through technical upgrading

All factories perform safety management in the production process by using technological means to ensure production safety.

- Install fire service connected device
- Erect additional protective fence in the robotic arm working area for shell manufacturing
- Install skirting board on the overhead bridge of the aluminium alloy furnace for heat treatment to prevent tools or parts from falling during the production or maintenance process
- Install grating sensor and double-hand button on the wax injection press so that the equipment will stop working if any other object enters the grating area or when the operator only uses one hand to operate

Impro Aerospace Components (Wuxi) Co., Ltd. replaced conventional films with electronic films to reduce the amount of potential radiation on employees

For inspection of the same components, electronic films may use lower voltage, less time and less motion graphics than conventional films, so that the amount of potential radiation received by the operator may be reduced to 30% – 70% of the original amount.

Safety in Production, Guidance of Responsibility

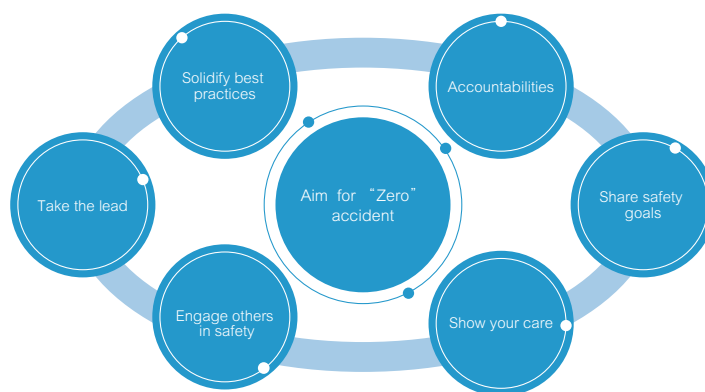
During the Reporting Period, the safety drills conducted by us included drills for confined space operation, special equipment incident, sodium cyanide poisoning incident, heat stroke, fire emergency, molten iron solution leakage emergency, liquid ammonia leakage emergency and earthquake, with a view to prevent and control potential accidents or emergency situations, and make preparation for and respond to emergency events so as to minimize the consequence of any possible incidents.

Safety Drill Activities



4.3 SAFETY CULTURE

Aiming at zero accident, Impro Group formulates and utilizes the ASSETS model to promote fundamental safety.



ASSETS model of Impro Group

Furthermore, we have also erected safety culture publicity boards in all factories and promotional campaigns with various themes on safe production have been organized to enhance the quality and awareness of safety and safe production so as to prevent and reduce various types of incidents and occupational hazards.

Safety Culture Publicity Display Board



Safety Training Activities



Join Hands to Achieve Progress Together

Being the utmost importance to a company's strategy and capacity, human resources plays a fundamental part in its existence and development. Bearing in mind that it's crucial to have a team of coordination, innovation and efficiency for the stable growth of the Group in the long run, we have been making efforts to create a harmonious and friendly working environment that is not only equal and fair, but also healthy and safe, in the hope of offering a solid and stable platform for staff development.

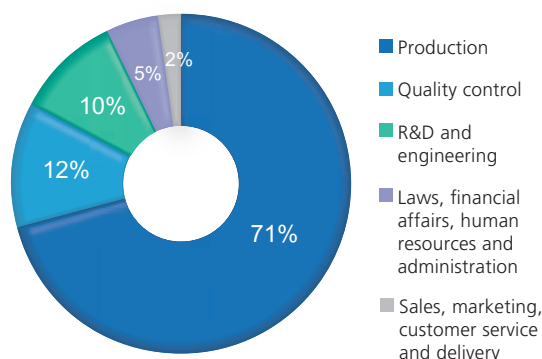
5.1 EQUALITY IN EMPLOYMENT

Impro Group has formulated relevant procedures and policies, on the Group's human resources management in accordance with the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China* and the *Labor Law of Turkey* as well as other national and local laws and regulations, such as *Entry Rules*, *Attendance Measures* and *Overtime Working Policies*. We have also put in place strict procedures for review and approval in the process of recruitment pursuant to the *Law on the Protection of Minors of the People's Republic of China* and *Provisions on the Prohibition of Using Child Labor* as well as other laws and regulations so as to eradicate the use of child labor and forced labor. As soon as the use of child labor and forced labor is identified, we will take responsive actions in strict compliance with relevant procedures and punish related persons in a severe way. During the Reporting Period, no abovementioned events have been discovered.

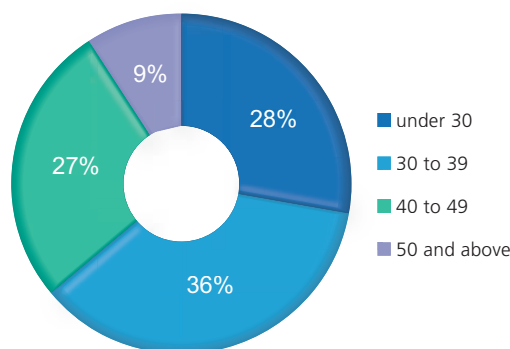
We have been continuously expanding our talent recruitment channels in the principle of diversified, open and inclusive employment. During the Reporting Period, we have recruited a group of new talents through campus presentations, jobs fairs, social recruitment and other channels. Among those channels, campus employment is one the most important way for Impro Group to attract and train talents and many new graduates from various universities and colleges across the country are joining us every year.

As of 31 December 2019, Impro Group had a total of 7,125 employees worldwide, with male and female employees accounting for 71% and 29%, respectively.

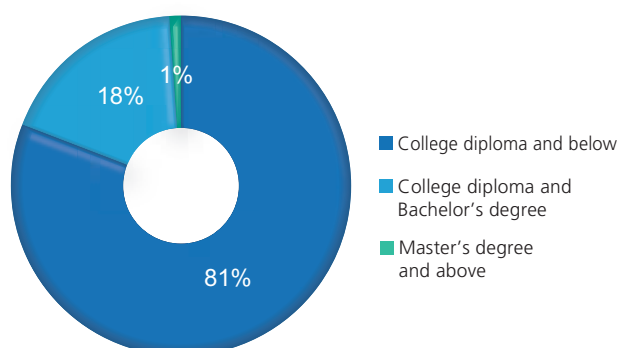
Employee number by function



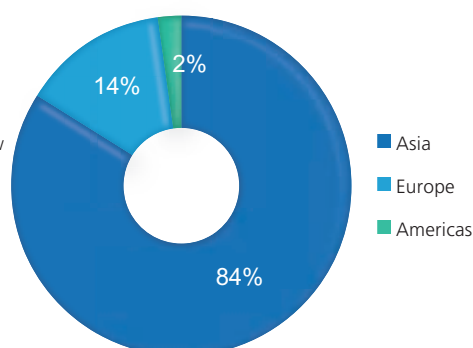
Employee number by age



Employee number by educational degree



Employee number by region



Join Hands to Achieve Progress Together

Remuneration and Benefits

Employees are the fundamental elements for a company's development. We respect and cherish each and every employee for his or her unique values, and are always caring for the well-being of all staff members at home and abroad. In order to attract and retain talents, we offer competitive welfare packages in the effective management of remuneration and benefits of our employees in compliance with laws. In particular, we have clearly set forth relevant provisions under Company Welfare System, Company Remuneration System and Reward and Punishment System, that employee's remuneration shall be determined by taking into account the employee ranking, professional skills, innovation and contribution and other indicators. Provided that our employees' lawful benefits are fully guaranteed, we also make additional efforts to offer more quality benefits and create better working conditions for our employees through more constant and effective communication with them while addressing their needs.

Normal benefits

- Social insurance
- Housing provident funds
- Paid leave
- OT allowance

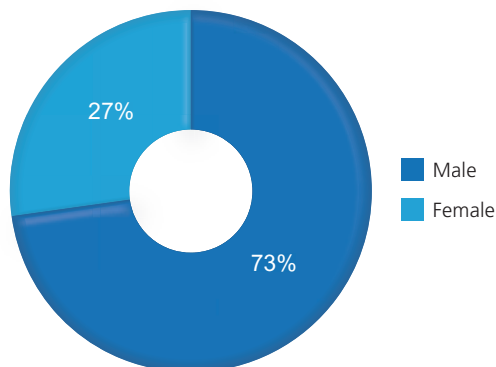
Other benefits

- Accommodation
- Meal allowance
- Commuting bus
- Health check
- Various fringe benefits and welfare
- Discretionary bonus and share option

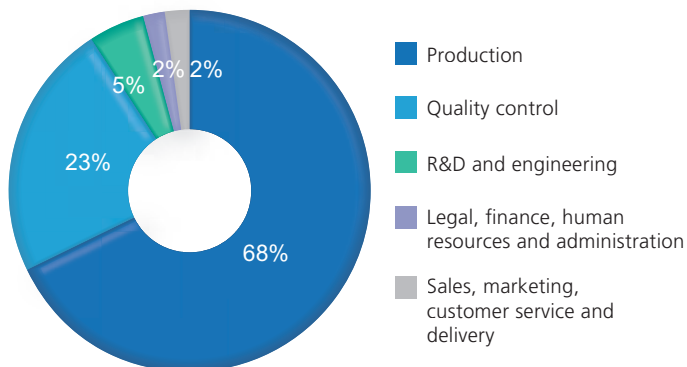
5.2 TALENTS DEVELOPMENT

Choosing, using and cultivating talents is of great significance to the development of Impro. The nurture of talents has currently become one of the primary strategical tasks of Impro Group. As an old saying goes, one who wins talents wins the world. Human resources has turned out to be the No. 1 productive force for enterprises in the era of rapidly developing knowledge economy. In recent years, we have initiated a series of talent training programs, dedicated to helping our staff obtain better occupational development and personal growth through diversified and professional platforms, therefore achieving mutual progress of the staff and the Group. During the Reporting Period, the number of employees participating in training reached 5,724 and the average training hours for each participant was 4.69 hours.

PERCENTAGE OF
TRAINED EMPLOYEES
BY GENDER



PERCENTAGE OF
TRAINED EMPLOYEES
BY FUNCTION



Training Development

Elite Talents Development Plan

Impro "Elite Talents Program" was launched in 2012 with the objective of developing elite talents who came from selected employees undertaking Impro's career development path based in China with excellent professional qualification and outstanding professional capability. Over seven years, we have selected and developed 58 elite talents from our various factories located in China and also from the Group's different function departments. They are placed in various fields of the Group, such as product R&D, engineer technology, production and business.



Young Eagle Plan

Young Eagle Plan is a management training project targeted at graduating students. It aimed at helping graduates form a right point of view on career development, delivering a message of our expectation on graduates, its values and mode of conduct. The ultimate objective is to assist graduates to gain a clear direction for career development and make a successful shift from classroom to office by providing them with professional instructions and planning guidance. During the Reporting Period, 80 graduating students of 2019 participated in the Young Eagle Plan. They have accepted a series of training, such as mentor induction on one-to-one basis, training of professional techniques, financial affairs, EHS and systematic matters, as well as English salon and outdoor sports.



Join Hands to Achieve Progress Together

Impro Academy

Impro Academy is an organization promoted and established by Impro Group, targeted at the Group's internal employees for training, assessment and selection for promotion. The Academy aims to spread core values and enterprise culture among our employees, to develop management and technology talents of high professional and international standard, to create a learning environment for our employees to improve their own management capability, business skills and professional qualifications in addressing their need for continuous learning. During the Reporting Period, Impro Academy held 60 trainings in total with approximately 500 participants. Main subjects under those trainings are managerial skills, production management, project management, EHS, professional skills, technical skills and qualifications, English language, etc.

Promotion Channels

Fair and diversified career development paths are essential to the development of high quality talents. We attach great importance to improve our employees' comprehensive capabilities and professional skills, and have put in place a clear and diverse system for assessment, promotion and reward and punishment so as to assist our employees to achieve career development and personal growth. Leveraging on talent promotion channels, an employee after probation may well grow from the starting position to engineer, executive, manager and become member of senior management based on personal performance and assessment result.

"Star Mechanic and Star Technician" Program

The assessment and incentive program of "Star Mechanic and Star Technician" was initiated at the end of 2015, with an aim to encourage front-line workers who work on a piecework basis to make progress and self-improvement and to build a spirit of craftsmanship that focuses on job skill improvement, connects theory and practice, and constantly strives for perfection. During the Reporting Period, over 3,000 employees applied for the program.

Innovation Platform

In order to encourage the initiative of employees, Impro Group has established an innovation platform and launched a series of innovative activities such as "Innovation Proposals", "3C", and "Good Ideas". Innovation refers to the creation of new products, processes, technologies, services, management methods, and other new things through invention, transformation, introduction of new technologies, knowledge, concepts, ideas and methods, and their application to the Company's operation and management for realizing their values. The Company has established an "innovation committee", which offers management in various aspects such as the initiation, implementation and promotion, evaluation and profit calculation of innovation activities and provides support, guidance and incentives for employees' innovation activities. With years' efforts and accumulation, our innovation platform has contributed its value for the common development of the Group and its employees, and made the spirit of innovation become a key DNA of Impro Group.

"3C" program	48 projects under the "3C" program were initiated during the Reporting Period.
"Good Ideas" program	1 project under the "Good Ideas" program was initiated during the Reporting Period.
"Innovation" program	8 projects under the "Innovation" program were initiated during the Reporting Period.



Final of the competition of the 3C program in 2019

Cloud-based Incentive Scheme: "Cloud" is all-round, covering all employees and "Cloud" is flexible, where any two points can be connected. Since 2013, we have adopted the "Cloud-based Incentive - Employee Points Program" for all employees of the Group. Centred on the six elements of success and based on the development strategy of the Group, we encourage employees to discover the merits of themselves and other colleagues, so as to incorporate the mindsets of hard working, dedication, appreciation and team working into our corporate culture, and create and foster a positive, healthy and harmonious corporate culture.

We set up reward behavior sets on the cloud-based incentive platform. Different points are set for each reward behavior. We evaluate the reward behavior on a bi-annual basis to determine the employee's accumulated points and establish employee points records for redeeming points for prizes and drawing grand prizes on a bi-annual basis.



Implementation process of Cloud-based Incentive Scheme

Join Hands to Achieve Progress Together

5.3 LIVING IN HARMONY

Employee Communication

Active and effective communication mechanisms are an integral part of our business management. We believe that diverse employee communication mechanisms enable us to create a more efficient work environment. We will regularly carry out employee satisfaction surveys and employee training in order to understand the opinions and advice of employees in life and work. Meanwhile, we founded our internal magazine - *Impro Today*, so as to inform our employees with the Group's latest developments and development directions, and to promote the communication and cultural spreading among our employees worldwide.



Our internal magazine — *Impro Today*

Staff Caring and Activities

In a bid to promote our healthy concept of “work life balance”, build an energetic, committed, and satisfactory excellent team and maintain our Impro Culture of high performance and high engagement, we have organized a range of employee activities with rich content and in diverse formats.

At the Hong Kong headquarters, the human resources team has specially set up a “Recreation Group” for preparing and organizing employee activities, holding welcome parties for new employees, and themed activities such as office stretching exercises, fruit day and cashew nutty caramel treats.

In our factories in Mainland China, we organized a number of activities, such as photo and essay solicitations, Mid-Autumn Festival party and parent-child tree planting, with a view to encouraging everyone to cultivate our corporate culture with joint efforts and strengthen their sense of belonging to the Group.



2019 Impro Sports Day for Employees in Mainland China



Open Day for Employees

In our factory in Turkey, we organized healthcare knowledge seminars on breast cancer to help female employees improve their knowledge of this disease. In addition, we held inauguration and anniversary celebration events for our employees and gave them gifts as souvenirs.



Healthcare Knowledge Seminars on Breast Cancer for Female Employees in the Turkish Factory



Gifts Distribution in Inauguration and Anniversary Celebration Events

Bring Love to Communities

We understand that “those who possess greater capabilities shall carry more responsibilities”. In the course of our development, we have a deep understanding of our social responsibilities as a large-scale responsible enterprise. Over the years, we have made continuous contributions to public welfare and gained rich achievements. Over the years, we have also made continuous contributions to communities and public welfare at home and abroad. During the Reporting Period, we were granted a “Caring Company Logo” for the year of 2019/2020 by the Hong Kong Council of Social Service.

During the Reporting Period, we donated a total of HK\$1 million to the society.

6.1 CARING OUR COMMUNITY

We are committed to fulfilling our social responsibilities by bringing more job opportunities to the communities where we operate and making contributions to local education.

Contribute to Talents Development



On 28 March 2019, the Turkish Factory invited students from the Engineering Department of Sakarya University for a visit and carried out a series of training activities in respect of human resources, career development, work safety and health, environmental and technical education. We also hired some students for summer internships in relevant departments and provided prospective talents with social and employment opportunities.

Contribute to Local Employment



Unveiling of commemorative plaque of Impro Mexico SLP Campus

On 28 August 2019, Impro Group held the foundation ceremony at the Impro Mexico SLP Campus in San Luis Potosi, Mexico. Impro Group plans to invest, in stages, more than US\$100 million in infrastructure and equipment for the Impro Mexico SLP Campus in 3 to 5 years, which will bring 1,200 to 1,500 new jobs to the local area.

6.2 CARING OUR ENVIRONMENT

We contribute efforts to build an environmental-friendly society by organizing various public welfare activities themed on environmental protection. Our efforts in environmental protection were recognized continuously by the society.

Impro Tree Planting Activities for Public Welfare in Mainland China



"World Clean-up Day" Garbage Cleaning Activities of the Turkish Factory



In September 2019, in response to the call for clean-up activities on the "World Clean-up Day", the Turkish Factory contributed its efforts to the cause of environmental protection by organizing a number of staff volunteers to clean up garbage on the beach of Tuzla.

Bring Love to Communities

6.3 CARING THROUGH DONATIONS

We endeavour to provide supports to those who need care and help, so that they can get more warmth and love.

Donation for Hope Foundation



The Hope Foundation's mobile dining car was invited to our Turkish Factory, where employees spontaneously bought food from the car, raised funds for the Hope Foundation to help children with cancer, and donated clothes for poor children in Turkey.

Our Move to Fight Against the Epidemic



During the outbreak of COVID-19, the Group actively took its corporate social responsibility and quickly taking advantage of Impro's "reliable, flexible and global" supply chain system, the Group has donated a total of 119,720 face masks to the medical staff in the front-line against the epidemic and the administrative authorities at all levels in Wuxi City, so as to make every possible contribution for the "battle" against COVID-19.

Appendix 1 ESG Content Index

CONTENT INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE STOCK EXCHANGE

Indicators	Details	Disclosures	Remarks
<i>A. Environmental</i>			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	3.1 Environmental Management 3.3 Low Carbon and Emission Reduction	
KPI A1.1	The types of emissions and respective emissions data.	3.3 Low Carbon and Emission Reduction	
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.3 Low Carbon and Emission Reduction	
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.3 Low Carbon and Emission Reduction	
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.3 Low Carbon and Emission Reduction	
KPI A1.5	Description of measures to mitigate emissions and results achieved.	3.3 Low Carbon and Emission Reduction	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	3.3 Low Carbon and Emission Reduction	
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	3.2 Energy Saving and Consumption Reduction	
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	3.2 Energy Saving and Consumption Reduction	
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	3.2 Energy Saving and Consumption Reduction	
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	3.2 Energy Saving and Consumption Reduction	

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Indicators	Details	Disclosures	Remarks
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	3.2 Energy Saving and Consumption Reduction	Water resources of the Group are sourced from municipal pipe network, and there is no issue in sourcing water.
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.		Packaging materials are not currently a material issue for the Group, and they were not disclosed during the Reporting Period due to many categories involved. The Group plans to further refine statistics and disclosures in the future.
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	3.1 Environmental Management	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.1 Environmental Management	
B. Social			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	5.1 Equality in Employment	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	5.1 Equality in Employment	
KPI B1.2	Employee turnover rate by gender, age group and geographical region.		The Group plans to make a detailed disclosure of the turnover rate by gender, age group and geographical region in the future.
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.1 Safety Management	

Indicators	Details	Disclosures	Remarks
KPI B2.1	Number and rate of work-related fatalities.	4.1 Safety Management	
KPI B2.2	Lost days due to work injury.	4.1 Safety Management	
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	4.1 Safety Management 4.2 Safety Measures 4.3 Safety Culture	
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	5.2 Talents Development	
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	5.2 Talents Development	
KPI B3.2	The average training hours completed per employee by gender and employee category.	5.2 Talents Development	
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	5.1 Equality in Employment	
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	5.1 Equality in Employment	
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	5.1 Equality in Employment	
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	2.3 Cooperation for Mutual Benefits	
KPI B5.1	Number of suppliers by geographical region.	2.3 Cooperation for Mutual Benefits	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	2.3 Cooperation for Mutual Benefits	

Appendix 1 ESG Content Index

Indicators	Details	Disclosures	Remarks
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	2.1 Quality First 2.2 Scientific Research and Innovation	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	2.1 Quality First	
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	2.3 Cooperation for Mutual Benefits	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	2.2 Scientific Research and Innovation	
KPI B6.4	Description of quality assurance process and recall procedures.	2.1 Quality First	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	2.3 Cooperation for Mutual Benefits	
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	1.4 Business Ethics	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	1.4 Business Ethics	
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	1.4 Business Ethics	
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	6. Bring Love to Communities	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	6.1 Caring Our Community 6.2 Caring Our Environment	
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	6.3 Caring through Donations	

Appendix 2 List of Laws, Regulations and Internal Policies

LIST OF MAJOR LAWS AND REGULATIONS:

Rules Governing the Listing of Securities on the Stock Exchange
 Anti-Unfair Competition Law of the People's Republic of China
 Company Law of the People's Republic of China
 Contract Law of the People's Republic of China
 Anti-Money Laundering Law of the People's Republic of China
 Interim Provisions on Banning Commercial Bribery
 Product Quality Law of the People's Republic of China
 Standardization Law of the People's Republic of China
 Patent Law of the People's Republic of China
 Environmental Protection Law of the People's Republic of China
 Clean Production Promotion Law of the People's Republic of China
 Environmental Law of Turkey
 Water Pollution Prevention and Control Law of the
 People's Republic of China
 Atmospheric Pollution Prevention and Control Law of the
 People's Republic of China
 Law of the People's Republic of China on the Prevention and
 Control of Environmental Pollution by Solid Waste
 Law of the People's Republic of China on Environmental
 Impact Assessment
 Emission Standard of Pollutants for Electroplating
 Production Safety Law of the People's Republic of China
 Law on Prevention and Control of Occupational Diseases of
 the People's Republic of China
 Law on Occupational Health and Safety of Turkey
 Regulations on the Reporting, Investigation and
 Disposition of Work Safety Accidents
 Regulations of the People's Republic of China on Administration
 of Chemicals subjected to Supervision and Control
 Regulation on the Administration of Precursor Chemicals
 Regulation on the Safety Management of Hazardous Chemicals
 Rules on Safety in the Use of Chemicals at the Workplace
 Fire Service Law of the People's Republic of China
 Special Equipment Safety Law of the People's Republic of China
 Emergency Response Law of the People's Republic of China
 Labor Law of the People's Republic of China
 Labor Contract Law of the People's Republic of China
 Labor Law of Turkey
 Law on the Protection of Minors of the People's Republic of China
 Provisions on the Prohibition of Using Child Labor

MAJOR INTERNAL POLICIES:

Quality Handbook
 Technical Process Inspection Workflow Plan
 Control Procedures for Inspection, Measurement and
 Testing Devices
 Intellectual Property Management System
 Supplier Management Procedure
 Management Rules for Handling of Customer
 Complaints
 Control Procedure for Customer Communication
 The Environmental Handbook
 Turkish Factory Environment and Occupational Health
 Handbook
 Solid Waste Management Rules
 Waste Gas Emission Management Rules
 Waste Water Discharge Management Rules
 EHS Control Framework for the China Region of Impro
 Reward and Punishment System
 Code of Conduct for Employees
 Entry Rules
 Attendance Measures
 Overtime Working Policies
 Company Welfare System
 Company Remuneration System