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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01286)

PROFIT WARNING

This announcement is made by Impro Precision Industries Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Company is scheduled to report its interim results for the six months ended 30 June 2020 ("**Reporting Period**") by mid-August 2020. Ahead of this interim results announcement (and prior to the finalisation of the unaudited consolidated financial statements for the Reporting Period), the Board of Directors of the Company wishes to inform shareholders and potential investors that the Group expects to record a loss attributable to shareholders of not more than HK$300 million for the Reporting Period as compared to a profit attributable to shareholders of HK$300 million for the same period in 2019, which is primarily due to the impact of an impairment charge against goodwill and other intangible assets, and to lesser extent the reduction of revenue mainly due to COVID-19 pandemic. If the above-mentioned impairment charge against goodwill and other intangible assets is to be disregarded, the Group expects to record a profit attributable to shareholders of approximately HK$150 to HK$180 million for the Reporting Period.

IMPACT OF COVID-19 PANDEMIC

Since the outbreak of COVID-19 pandemic throughout Europe and North America in March 2020, most of the Group's European and North American customers have implemented various extent of plant shutdowns to contain the COVID-19 pandemic. These extreme and unprecedented measures have reduced the Group's revenue and operating profit. While these countries have gradually lifted the economic lockdown recently, the management of the Company believes that in the near to medium term, high unemployment rate and the threat of second wave of COVID-19 pandemic will continue to adversely affect consumer confidence which will lead to weak consumption globally at least until the end of 2020. In response to such challenging environment, the management has implemented a series of operating cost and capital expenditure control measures in order to lower the breakeven point of operations, and preserve liquidity to weather the current economic crisis.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

As recorded in the Group's latest audited consolidated accounts as of 31 December 2019, the Group has goodwill balance of approximately HK$446 million as of such date. Such goodwill arose primarily from the Group's acquisition of a surface treatment plant in China in June 2014 and a precision machining plant in Turkey in August 2014, and represents the excess of the purchase consideration paid by the Company over the identified net assets of the acquired businesses.

The management of the Company has undertaken a preliminary impairment testing of goodwill and other intangible assets as of 30 June 2020. Taking into account the combined effect of the COVID-19 pandemic and the expected slow recovery from current market conditions as described above, the management of the Company considers the recoverable amount of goodwill and some other intangible assets is likely to be less than their carrying value. As a result, the Company expects to record an impairment charge against goodwill and other intangible assets. As at the date of this announcement, the exact amount of such impairment charge is still subject to review and finalisation.

SOLID FINANCIAL POSITION AND STRONG FREE CASH FLOW

The Group would like to emphasize that the expected impairment charge against goodwill and other intangible assets is a non-cash item and does not have an impact on the Group's cash flows, operations, liquidity and debt covenant compliance. As at 30 June 2020, the estimated cash and cash equivalents and pledged deposits of the Group was approximately HK$563 million while estimated bank loans and lease liabilities of the Group was approximately HK$908 million, which means a net debt of approximately HK$345 million (31 December 2019: HK$508 million) and a net gearing ratio of approximately 10%. The estimated reduction of net debt of approximately HK$163 million was due to strong free cash flow of the Group during the Reported Period, net of 2019 final dividends of approximately HK$60 million paid in May 2020. Meanwhile, the Group had over HK$1 billion total banking facilities available for draw-down as at 30 June 2020.

The information contained in this announcement is solely based on a preliminary assessment by the management of the Company with reference to the information currently available to the Company and based on the unaudited consolidated management accounts of the Group for the Reporting Period, which is yet to be finalised and has not yet been reviewed by the Company's auditors or the audit committee of the Company.

The interim results announcement of the Company for the six months ended 30 June 2020 is expected to be published by mid-August 2020.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Impro Precision Industries Limited
LU Ruibo
Chairman

Hong Kong, 10 July 2020

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