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IMPRO PRECISION INDUSTRIES LIMITED

鷹普精密工業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1286)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION ACQUISITION OF ENTIRE EQUITY INTEREST OF NORTHMAN CHINA

Reference is made to the announcement of Impro Precision Industries Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) dated 7 April 2022 (the “**Announcement**”). Unless otherwise specified, capitalized terms defined in the Announcement shall have the same meanings when used herein.

The Board wishes to provide the Shareholders and potential investors of the Company with additional information in relation to the Announcement as follows:

(1) DETAILS OF THE BASIS OF THE CONSIDERATION

As disclosed in the Announcement, the Consideration is determined with reference to the current business operations and market position of the Target Company, the current market value of the Target Company, current market conditions and future development prospects of the hydraulic industry. Details of how the Consideration is determined with reference to these factors are set out as follows:

(i) Current business operations and market position of the Target Company

As disclosed in the Announcement, the Target Company is mainly engaged in the design, production and sales of hydraulic valves products. According to a research report prepared by an Independent Third Party consulting company engaged by the Group, the Target Company, as a leading manufacturer in the hydraulic valves market in the PRC, is ranked among the top three in one of the end markets that the Target Company serves, in terms of gross revenue for the year ended 31 December 2020.

As a global leading manufacturer of high-precision, high-complexity and mission-critical casting and machined components, offering vertically integrated one-stop solutions for its diverse end market globally, the Group defines hydraulic end market as one of its key strategic development directions. Given the market position of the Target Company, the Directors believe that hydraulic components and systems business will bring operational and strategic synergies to the Group.

(ii) Current market value of the Target Company

The current market value of the Target Company is determined by the Company with reference to the following:

- (i) the transaction multiple for two precedent transactions in the hydraulic industry in recent years where their consideration to earnings before taxation ratio (the “**consideration to EBT ratio**”) ranged from 19.0x to 20.4x with the average of such ratio amounted to 19.7x;
- (ii) the price-to-earnings ratio (the “**P/E ratio**”) and price-to-book ratio (the “**P/B ratio**”) of four comparable overseas listed companies as of the date of Equity Purchase Agreement which ranged from 19.3x to 23.3x and from 1.6x to 5.2x, respectively, with the average of such ratios amounted to 21.7x and 3.3x, respectively; and
- (iii) the P/E ratio and P/B ratio of three comparable companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange as of the date of Equity Purchase Agreement which ranged from 26.0x to 50.8x and from 5.9x to 8.2x, respectively, with the average of such ratios amounted to 37.5x and 7.1x, respectively.

It is noted that (1) the consideration to EBT ratio with respect to the Acquisition is marginally higher than the average of all comparable companies listed in (i) above, and (2) its P/E ratio and P/B ratio are higher than the average of all comparable companies listed in (ii) above but is meaningfully lower than the average of all comparable companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange listed in (iii) above. Given that the Target Company is based in the PRC, the Directors consider that more weight should be given to the PRC based comparable companies when determining the market value of the Target Company.

The above precedent transactions and comparable listed companies were selected with reference to the following factors as compared to that of the Target Company: i) their product portfolios; ii) their end-markets; iii) their size of the operation; iv) their key customers and area of applications; v) their market growth and geographic exposure in the recent years; and vi) their listing venue. The Directors therefore consider that it is fair and reasonable to make reference to the above information in determining the market value of the Target Company.

(iii) Current market conditions and future development prospects of the hydraulic industry

According to the statistics published by International Statistics Committee, an international authoritative source on global fluid power statistics, the market size of the global hydraulic market and hydraulic valve market for the year ended 31 December 2020 amounted to €29.9 billion and €4.8 billion respectively, while according to the statistic published by China Hydraulics Pneumatics & Seals Association, the market size of the China hydraulic market for the year ended 31 December 2020 amounted to RMB82.1 billion. According to a research report prepared by an Independent Third Party consulting company engaged by the Group, the estimate market size of the China hydraulic valve market for the year ended 31 December 2020 amounted to RMB21.7 billion, while the estimate market size of the global and China hydraulic compact valve market for the year ended 31 December 2020 amounted to US\$3 billion and RMB9.2 billion respectively. The Directors believe that there is strong growth potential for the China hydraulic market, including the hydraulic valve market and hydraulic compact valve market, which will be driven by the increasing penetration and localization of domestic hydraulic manufacturers and robust infrastructure build-up and speedy urbanization in the PRC.

Hydraulic valves are widely used in hydraulic control functions of various mobile and industrial applications such as plastic injection molding machines, excavators, machine tools, forklifts and other equipment, and are mission-critical and high cost-of-failure to industrial, construction machinery and agriculture machinery customers. With “high-mix, low-volume” nature, hydraulic valves are typically manufactured with different specifications in small volume on made-to-order basis. Therefore, the operation and supply chain management of the hydraulic valve manufacturing industry has a high entry barrier. Accordingly, the Directors believe that the Acquisition of the Target Company, being a leading manufacturer of hydraulic valve products in the PRC, is, on one hand, beneficial for the Group’s long term business development as the hydraulic industry is one of the Group’s future strategic development directions, and will, on the other hand, generate comprehensive strategic and operational synergies with the Group’s existing business, in particular in precision machining, casting, heat treatment and surface treatment capabilities. In addition, upon completion of the Acquisition, leveraging the Group’s global sales offices in the US and Europe, its existing plants in China, Turkey and Mexico, as well as its strong business relationship with global original equipment manufacturers, the Directors believe that there is strong revenue growth potential for the Target Company with its geographic business expansion from China to North America and Europe and horizontal business expansion into adjacent product segments for construction machinery and agricultural machinery in the future.

Based on the above, the Directors are of the view that the Consideration is fair and reasonable and in the interests of the shareholders as a whole.

(2) DETAILS OF THE PRICING ADJUSTMENT MECHANISMS

As disclosed in the Announcement, the Consideration is subject to adjustments with reference to net working capital, net cash and EBITDA of the Target Company.

For the purpose of determining the adjustment to the Consideration (if any), the Seller is required to deliver a closing statement within 40 business days after the Closing Day (the “**Closing Statement**”), which sets forth certain financial information of the Target Company. Such financial information includes net working capital and net cash as at the Closing Day and EBITDA for the year ended 31 December 2021.

In terms of net working capital, the Purchaser and the Seller agreed a target net working capital amount. If the amount of net working capital of the Target Company shown in the Closing Statement is higher or lower than the agreed target net working capital amount, the Consideration will be adjusted upward or downward on a dollar-for-dollar basis accordingly.

In terms of net cash, if the amount of net cash shown in the Closing Statement is higher or lower than the net cash of the Target Company as at 31 August 2021 (“**Benchmark Net Cash**”), the Consideration will be adjusted upward or downward on a dollar-for-dollar basis accordingly.

In terms of EBITDA, the Consideration will only be adjusted downward but not upward. The estimated average EBITDA of the Target Company for the two years ended 31 December 2020 and 2021 based on the Company’s financial due diligence on the Target Company will be compared with the actual average EBITDA of the Target Company for these two years. If the actual EBITDA for the year ended 31 December 2021 is less than 95% of the estimated EBITDA for the same year, the Consideration will be adjusted downward by an amount that is equal to the difference in average EBITDA and a multiplier. Such multiplier was calculated by dividing the Consideration less Benchmark Net Cash by the estimated average EBITDA for the two years ended 31 December 2020 and 31 December 2021. Similarly, the projected or target EBITDA of the Target Company for the six months ending 30 June 2022 will be compared with the actual EBITDA for the same period. If the actual EBITDA is less than 100% of the projected or target EBITDA, the Consideration will be adjusted downwards in a similar fashion.

To afford further protection to the Purchaser, the Consideration will be reduced if certain audit adjustments are made to the 2021 management accounts of the Target Company provided to the Company as part of its financial due diligence. Such provision in the Equity Purchase Agreement allows the Company to reflect the impact of such audit adjustments directly in the price for the Acquisition instead of having to rely on representations and warranties in the Equity Purchase Agreement and the right to claim damages.

Further announcement will be made by the Company if there is any adjustment to the Consideration.

(3) MAXIMUM AMOUNT FOR THE CONSIDERATION AND LISTING RULES IMPLICATIONS

All the adjustable items will be considered as a whole and only net cash and net working capital increases can result in upward adjustment of the Consideration. In the event that only net cash and net working capital increase and there are no other adjustable items, the Company believes that the Consideration shall be increased by no more than RMB30 million based on the movement of net working capital and net cash of the Target Company for the two years ended 31 December 2020 and 31 December 2021. As such the maximum amount of the Consideration shall be no more than RMB582,251,000 (the “**Potential Maximum Consideration**”).

Even when adopting the Potential Maximum Consideration for calculation of the applicable percentage ratios under Chapter 14 of the Listing Rules for the transactions contemplated under the Equity Purchase Agreement, one or more of the applicable percentage ratios is still more than 5% and less than 25%. Accordingly, the Acquisition still constitutes a discloseable transaction which is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

By order of the Board
Impro Precision Industries Limited
LU Ruibo
Chairman and Chief Executive Officer

Hong Kong, 22 April 2022

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. LU Ruibo (chairman and chief executive officer), 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.