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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)

DISCLOSEABLE TRANSACTION ACQUISITION OF HYDRAULIC ORBITAL MOTOR BUSINESS OF DANFOSS JIANGSU

THE ACQUISITION

The Board is pleased to announce that on 5 July 2022 (after trading hours), Impro Fluidtek (as the Purchaser), an indirect wholly-owned subsidiary of the Company, entered into the Asset Purchase Agreement pursuant to which Impro Fluidtek agreed to acquire the Target Business from Danfoss Jiangsu (as the Seller) at a total consideration of EUR65 million, subject to certain adjustments. Upon completion of the Acquisition, the Target Business will become wholly owned by the Company and will be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules for the transactions contemplated under the Asset Purchase Agreement is more than 5% and less than 25%, the Acquisition constitutes a discloseable transaction which is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Acquisition is subject to the satisfaction of the conditions precedent as provided in the Asset Purchase Agreement which may or may not be fulfilled, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that on 5 July 2022 (after trading hours), Impro Fluidtek (as the Purchaser), an indirect wholly-owned subsidiary of the Company, entered into the Asset Purchase Agreement pursuant to which Impro Fluidtek agreed to acquire the Target Business from Danfoss Jiangsu (as the Seller) at a total consideration of EUR65 million, subject to certain adjustments. Upon completion of the Acquisition, the Target Business will become wholly owned by the Company and will be consolidated into the financial statements of the Group.

THE AGREEMENT

The principal terms of the Asset Purchase Agreement are summarised as follows.

- Date:** 5 July 2022 (after trading hours)
- Parties:** (1) Impro Fluidtek as the Purchaser; and
(2) Danfoss Jiangsu as the Seller.
- Subject Matter:** Subject to the terms and conditions of the Asset Purchase Agreement, the Purchaser agreed to acquire and the Seller agreed to sell the Target Business at a total consideration of EUR65 million (the “**Consideration**”), which may be further adjusted by certain price adjustment mechanisms with reference to the net working capital, net cash and EBITDA of the Target Business as provided in the Asset Purchase Agreement.

The Consideration is the sum of the following:

- (i) Base Purchase Price, which is estimated at EUR65 million and equals to the product of estimated Adjusted EBITDA and a multiplier. Further adjustments shall be made to the Base Purchase Price in accordance with the adjustments on the Adjusted EBITDA. Base Purchase Price is subject to a cap of EUR67 million and a floor of EUR61 million;
- (ii) Final Net Working Capital Adjustment Amount, which may be positive or negative, equals to (a) the Closing Net Working Capital minus (b) the target net working capital set forth in the Asset Purchase Agreement; and
- (iii) Final Net Cash, which may be positive or negative, equals to (a) the Closing Cash minus (b) the Closing Indebtedness.

In the event that the Base Purchase Price reaches the cap of EUR67 million, and the Final Net Working Capital Adjustment Amount and the Final Net Cash is positive, the Company believes that the Consideration shall be increased by no more than EUR15 million based on the movement of net working capital and net cash of the Target Business for the years ended 31 December 2019, 31 December 2020 and 31 December 2021. As such, the maximum amount of the Consideration shall be no more than EUR80 million.

**Basis of the
Consideration:**

The Consideration was arrived at after arm's length negotiation on normal commercial terms between the Purchaser and the Seller with reference to the current business operations and market position of the Target Business, the current market value of the Target Business, the current market condition 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 Business

The Target Business operated by the Seller mainly includes the research and development, manufacture, distribution and sale of hydraulic orbital motors. According to a research report prepared by an Independent Third Party consulting company engaged by the Group, the Target Business, as a leading manufacturer in the hydraulic orbital motor market in the PRC, is the market leader in one of the end-markets that the Target Business serves, in terms of gross revenue for the year ended 31 December 2021.

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 Business, the Directors believe that the Target Business will bring operational and strategic synergies to the Group.

(ii) Current market value of the Target Business

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

- (a) the transaction multiple for four precedent transactions in the hydraulic industry in recent years where the average and median of their relevant consideration to EBITDA ratio (the “**EV/EBITDA ratio**”) amounted to 11.6x and 12.0x respectively; and

- (b) the EV/EBITDA ratio of seven comparable listed companies as of date of this announcement (calculated by adopting their EBITDA of 2021) where the average and median of such ratio amounted to 18.5x and 17.3x respectively.

The above precedent transactions and comparable listed companies were selected with reference to the following factors as compared to that of the Target Business: (i) their product portfolios; (ii) their end-markets; (iii) their size of the operation; (iv) their key customers and area of applications; and (v) their market growth and geographic exposure in the recent years. It is noted that the EV/EBITDA ratio of the Acquisition, calculated by using the Adjusted EBITDA, is slightly lower than that of the comparable transactions listed in (a) above and significantly lower than that of the comparable listed companies listed in (b) above. 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 Business.

(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 for the year ended 31 December 2020 amounted to EUR29.9 billion. According to a research report prepared by an Independent Third Party consulting company engaged by the Group, the market size of the global hydraulic orbital motor market for the year ended 31 December 2020 amounted to EUR400 million to EUR700 million. The hydraulic orbital motor market in China is outperforming that in the rest of the world, primarily due to the rapid growth of AWP market, one of the important end-markets of hydraulic orbital motor in China. According to the statistics published by China Construction Machinery Association, the total AWP sales volume of China's major 10 AWP manufacturers for the year ended 31 December 2021 recorded an increase of 54.6% on a year-over-year basis. The China AWP market is also one of the end-markets in which the Target Business takes a leading position. The Directors believe that with the increasing demand for labor cost control by enterprises in China and the wide application of AWP in the operation at heights in China driven by the strengthening safety requirements on operation at heights and the maturity of the AWP machinery leasing industry in China, there is a strong growth potential for the China hydraulic orbital motor market.

The Directors believe that the Acquisition of the Target Business, being a leading business in research and development, manufacture, distribution and sale of hydraulic orbital motors 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 Business with its geographic business expansion in the North America and Europe 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.

Payment Terms: The Consideration shall be settled in full by the Purchaser on the Closing Date by wire transfer to a bank account designated by the Seller in writing at least two business days prior to the Closing Date.

Source of Funding: The Acquisition will be funded by the Group's internal financial resources and loan(s) with third party banks.

Conditions Precedent: The respective obligations of each party to consummate the transactions contemplated by the Asset Purchase Agreement shall be subject to the satisfaction (or waiver in writing by both the Purchaser and the Seller), at or prior to the Closing, of each of the following conditions:

- (i) the relevant approvals from the SAMR shall have been obtained; and
- (ii) no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or governmental order that is in effect and would make the Closing illegal or otherwise prohibit or enjoin the consummation of the transaction contemplated by the Asset Purchase Agreement.

As at the date of this announcement, the relevant approvals from the SAMR have been obtained.

The obligations of the Purchaser to consummate the transactions contemplated by the Asset Purchase Agreement shall be subject to the satisfaction, or waiver in writing by the Purchaser, of each of the following conditions at or prior to the Closing:

- (i) the representations and warranties of the Seller as provided in the Asset Purchase Agreement shall be true and correct in all material respects as of the date of the agreement and as of the Closing Date with the same force and effect as if made on and as of such date (except that any such representations and warranties that are specifically made as of a particular date shall be true and correct in all material respects as of such date);
- (ii) the Seller shall have performed and complied in all material respects with the material agreements and covenants required to be performed or complied with by it on or prior to the Closing Date;
- (iii) the Seller shall have delivered to the Purchaser a counterpart of each ancillary agreement to which the Seller or any of its affiliates is a party, duly executed on behalf of the Seller or such affiliate;
- (iv) there shall not have occurred any material adverse effect from the date of the Asset Purchase Agreement; and
- (v) the Purchaser shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of the Seller, that each of the conditions set forth in the Asset Purchase Agreement has been satisfied.

The obligations of the Seller to consummate the transactions contemplated by the Asset Purchase Agreement shall be subject to the satisfaction, or waiver in writing by the Seller, of each of the following conditions at or prior to the Closing:

- (i) the representations and warranties of the Purchaser as provided in the Asset Purchase Agreement shall be true and correct in all material respects as of the Closing Date with the same force and effect as if made on and as of the Closing Date (except that any such representations and warranties that are specifically made as of a particular date shall be true and correct in all material respects as of such date);
- (ii) the Purchaser shall have performed and complied in all material respects with the material agreements and covenants required to be performed or complied with by it on or prior to the Closing Date;

- (iii) the Purchaser shall have delivered to the Seller a counterpart of each ancillary agreement to which the Purchaser or any of its affiliates is a party, duly executed on behalf of the Purchaser or such affiliate; and
- (iv) the Seller shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of the Purchaser, that each of the conditions as provided in the Asset Purchase Agreement has been satisfied.

Upon completion of the Acquisition, the Target Business will become wholly owned by the Company and will be consolidated into the financial statements of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors believe that the Acquisition will bring the Group with long-term benefits for the following reasons:

Firstly, the Group focuses on the manufacturing of high-precision, high-complexity and mission-critical casting and machined components, offering vertical integration of one-stop solutions for its diverse end-markets globally, including initial research and development, tooling design and manufacture, casting, heat treatment, secondary machining and surface treatment. As an important end-market that the Group has been focusing on for a long time, the hydraulic industry is one of the Group's future strategic development directions.

Secondly, the Target Business is mainly related to the research and development, manufacture, distribution and sale of hydraulic orbital motors, and maintains market competitiveness in product design, component production, brand recognition, customer relations, supply chain management and many other aspects. Upon completion of the Acquisition, the Group and the Target Business will generate comprehensive synergies in sales network, customer resources, supply chain management and global footprint.

In view of the abovementioned reasons, the Directors are of the view that the terms of the Acquisition are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

INFORMATION OF THE PARTIES INVOLVED

Information of the Group and the Purchaser

The Company is an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange. The Group is a top 10 manufacturer of high-precision, high-complexity and mission-critical casting and machined components for diverse end-market globally.

Impro Fluidtek is a wholly foreign-owned enterprise established in the PRC and an indirectly wholly-owned subsidiary of the Company. It is principally engaged in manufacturing of hydraulic products and components.

Information of the Seller

The Seller, Danfoss Jiangsu, is a limited liability company established under the laws of the PRC, and is principally engaged in, among others, research and development, manufacture, distribution and sale of drive products, hydraulic components, hydraulic modules and hydraulic equipment. As at the date of this announcement, the Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Danfoss Jiangsu is owned as to 100% by Danfoss A/S which is ultimately beneficially owned as to 48% by Bitten & Mads Clausen's Foundation (the "**Foundation**"), the single largest shareholder of Danfoss A/S and a commercial foundation established under Danish law and registered with The Danish Commerce and Companies Agency with no shareholders under Danish law. Members of the board of trustees of the Foundation, all being Independent Third Parties, are considered as its ultimate beneficial owners as they are responsible for management of the Foundation. Danfoss A/S, headquartered in Denmark, is a global corporation mainly engaged in the manufacturing of components and engineering technologies for refrigeration, air conditioning, heating, motor control and hydraulics used in off-road machinery. Danfoss A/S also provides solutions for renewable energy, for instance solar and wind power, as well as district energy infrastructure for cities.

Information of the Target Business

The Target Business includes research and development, manufacture, distribution and sale of hydraulic orbital motors. As of the date of this announcement, the Target Business is wholly owned by the Seller.

Based on the pro forma financial statements of the Target Business prepared by the Seller in accordance with the IFRS and extracted from the audited financial accounts of the Seller prepared in accordance with the ASBE, the unaudited EBITDA and net profits before taxation of the Target Business for the years ended 31 December 2019, 2020 and 2021 are as follows.

	For the year ended 31 December 2019 (Unaudited) (EUR'000)	For the year ended 31 December 2020 (Unaudited) (EUR'000)	For the year ended 31 December 2021 (Unaudited) (EUR'000)
EBITDA	4,211	3,040	11,216
Net profits before taxation	3,043	1,800	10,072

As the Target Business is a carve-out from the Seller, it does not have its own tax filing. Adopting the Seller's applicable corporate income tax rate of 15%, the pro forma net profits after taxation of the Target Business would be EUR2,587,000, EUR1,530,000 and EUR8,561,000 for the years ended 31 December 2019, 2020 and 2021, respectively.

As at 31 December 2021, the unaudited total assets value and the unaudited net assets value of the Target Business amounted to EUR19,053,000 and EUR7,316,000, respectively.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules for the transactions contemplated under the Asset Purchase Agreement is more than 5% and less than 25%, the Acquisition constitutes a discloseable transaction which is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

None of the Directors has a material interest in the transactions contemplated under the Asset Purchase Agreement or is required to abstain from voting at the Board meeting for considering and approving the same.

As the Acquisition is subject to the satisfaction of the conditions precedent as provided in the Asset Purchase Agreement which may or may not be fulfilled, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

“2019 EBITDA”	EBITDA for the year ended December 31, 2019 based on its 2019 pro forma financial statements
“2020 EBITDA”	EBITDA for the year ended December 31, 2020 based on its 2020 pro forma financial statements
“2021 EBITDA”	EBITDA for the year ended December 31, 2021 based on its 2021 pro forma financial statements, subject to further adjustments prior to the Closing Date
“Acquisition”	the acquisition of the Target Business by the Purchaser from the Seller, as contemplated under the Asset Purchase Agreement
“Adjusted EBITDA”	the product of the sum of (i) 2019 EBITDA, (ii) 2020 EBITDA, and (iii) 2021 EBITDA, divided by three
“ASBE”	Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC
“Asset Purchase Agreement”	the asset purchase agreement dated 5 July 2022 and entered into between the Seller and the Purchaser in relation to the acquisition of the Target Business by the Purchaser from the Seller

“Assumed Liabilities”	any and all of the obligations and liabilities of the Seller of any kind or nature whatsoever arising out of or relating to the operation of the Target Business or the Transferred Assets, whether accruing prior to, on or after the Closing Date (other than the excluded liabilities as set out in the Asset Purchase Agreement)
“AWP”	aerial work platforms
“Base Purchase Price”	equals to the product of estimated Adjusted EBITDA and a multiplier, which is estimated at EUR65,000,000
“Board”	the board of Directors of the Company
“Closing”	the closing of the transactions contemplated under the Asset Purchase Agreement
“Closing Cash”	the cash of the Target Business as set forth in the written statement prepared and delivered to the Seller by the Purchaser within 60 days after the Closing Date
“Closing Date”	10:00 a.m., Beijing time, no later than the third business day after the last of the conditions to Closing as stipulated in the Asset Purchase Agreement has been satisfied or waived in writing (other than any conditions that by their nature are to be satisfied at the Closing, it being understood that the occurrence of the Closing shall remain subject to the satisfaction or waiver in writing of such conditions at the Closing), unless another date is agreed to in writing by the Purchaser and the Seller
“Closing Indebtedness”	indebtedness of the Target Business as set forth in the written statement prepared and delivered to the Seller by the Purchaser within 60 days after the Closing Date
“Closing Net Working Capital”	the net working capital of the Target Business as set forth in the written statement prepared and delivered to the Seller by the Purchaser within 60 days after the Closing Date
“Company”	Impro Precision Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Danfoss Jiangsu” and “Seller”	Danfoss Power Solutions (Jiangsu) Co., Ltd.* (丹佛斯動力系統(江蘇)有限公司), a wholly foreign-owned enterprise established in the PRC and an Independent Third Party as of the date of this announcement
“Directors”	the directors of the Company

“EBITDA”	earnings before interest, income taxes, depreciation expenses, and amortization expenses but excluding earnings which do not originate from ordinary business
“EUR”	the euro, the official currency of 19 of the 27 member states of the European Union
“Final Net Cash”	an amount, which may be positive or negative, equals to (a) the Closing Cash minus (b) the Closing Indebtedness
“Final Net Working Capital Adjustment Amount”	an amount, which may be positive or negative, equals to (i) the Closing Net Working Capital minus (ii) the target net working capital set forth in the Asset Purchase Agreement
“Group”	the Company and its subsidiaries
“IFRS”	International Financial Reporting Standards (IFRS) which are issued by the International Accounting Standards Board (IASB) and adopted by the European Union
“Impro Fluidtek” and “Purchaser”	Impro Fluidtek Limited* (鷹普流體科技有限公司), a wholly foreign-owned enterprise established in the PRC and an indirectly wholly-owned subsidiary of the Company
“Independent Third Party”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, as amended from time to time
“Long Stop Date”	a date that is six (6) months after the date of the Asset Purchase Agreement
“PRC”	the People’s Republic of China, and for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SAMR”	the State Administration for Market Regulation of PRC
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)

* For identification purposes only

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Business”	research and development, manufacture, distribution and sale of hydraulic orbital motors as conducted by the Seller, including all hydraulic orbital motor products manufactured by the Seller that are under research and development by affiliates of the Seller, which shall include the purchase of the Transferred Assets and the assumption of the Assumed Liabilities
“Transferred Assets”	assets, properties and rights of the Seller, to extent that such assets, properties and rights exist as of the Closing Date and exclusively related to the Target Business (other than the excluded assets as set out in the Asset Purchase Agreement)
“US”	the United States of America

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

Hong Kong, 5 July 2022

As at 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.