

PRECISION TSUGAMI (CHINA) CORPORATION LIMITED

津上精密機床(中國)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1651

GLOBAL OFFERING

Sole Sponsor



Sole Global Coordinator



Joint Bookrunners and Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Precision Tsugami (China) Corporation Limited 津上精密機床(中國)有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 90,000,000 Shares comprising 60,000,000 new Shares and 30,000,000 Sale Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 9,000,000 Shares (subject to adjustment)
Number of International Offer Shares	: 81,000,000 Shares comprising 51,000,000 new Shares and 30,000,000 Sale Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$5.60 per Offer Share, plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$1.00 per Share
Stock code	: 1651

Sole Sponsor



Sole Global Coordinator



Joint Bookrunners and Joint Lead Managers



BOC INTERNATIONAL



香港資產管理
Hong Kong Asset
Management Ltd.



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection – Documents delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement among the Sole Global Coordinator (on behalf of the Underwriters), our Company and the Selling Shareholder, on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 15 September 2017 and, in any event, not later than Friday, 22 September 2017. The Offer Price will not be more than HK\$5.60 per Offer Share and is expected to be not less than HK\$4.60 per Offer Share. Investors applying for the Offer Shares must pay, on application, the maximum Offer Price of HK\$5.60 for each Offer Share, together with a brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate reduce the number of Offer Shares and/or the indicative Offer Price range below that described in this prospectus (which is HK\$4.60 to HK\$5.60 per Offer Share) prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at www.tsugami.com.cn. Further details are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by Friday, 22 September 2017, the Global Offering will not proceed and will lapse.

Prospective investors should note that the obligations of the Hong Kong Underwriters to subscribe or to procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by notice (orally or in writing) to us from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor if certain events shall occur prior to 8:00 a.m. on the day on which trading in our Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirement under the U.S. Securities Act.

12 September 2017

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under **HK eIPO White Form** service through the designated website at **www.hkeipo.hk**⁽²⁾ 11:30 a.m. on Friday, 15 September 2017

Application lists of the Hong Kong Public Offering open⁽³⁾ 11:45 a.m. on Friday, 15 September 2017

Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) 12:00 noon on Friday, 15 September 2017

Latest time to lodge **WHITE** and **YELLOW** Application Forms 12:00 noon on Friday, 15 September 2017

Latest time to give **electronic application instructions** to HKSCC⁽⁴⁾ 12:00 noon on Friday, 15 September 2017

Application lists of the Hong Kong Public Offering close 12:00 noon on Friday, 15 September 2017

Expected Price Determination Date⁽⁵⁾ Friday, 15 September 2017

Announcement of:

- the Offer Price
- the level of indications of interest in the International Offering;
- the level of applications under the Hong Kong Public Offering; and
- the basis of allotment of the Hong Kong Offer Shares

to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese), on the website of the Stock Exchange at **www.hkexnews.hk** and on the website of our Company at **www.tsugami.com.cn** on or before Friday, 22 September 2017

Announcement of results of allotment in the Hong Kong Public Offering (with successful applicants' identification document numbers where applicable) available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus Friday, 22 September 2017

EXPECTED TIMETABLE⁽¹⁾

Results of allocations in the Hong Kong Public Offering

will be available at www.tricor.com.hk/ipo/result with a “search by ID” function Friday, 22 September 2017

Despatch of Share certificates or deposited into CCASS in respect of

wholly or partially successful applications on or before Friday, 22 September 2017

Despatch of refund cheques (if applicable) in

respect of wholly and partially successful applications (if applicable) or wholly or partially unsuccessful applications on or before Friday, 22 September 2017

Despatch of **HK eIPO White Form** e-Auto Refund payment instructions

(if applicable) in respect of wholly and partially successful applications (if applicable) or wholly or partially unsuccessful applications on or before . . . Friday, 22 September 2017

Dealings in our Shares on the Stock Exchange

expected to commence on Monday, 25 September 2017

Notes:

- (1) All dates and times refer to Hong Kong dates and time, except otherwise stated. The above expected timetable is a summary only. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 15 September 2017, the application lists will not open and close on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares – 10. Effect of bad weather on the opening of the application lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares – 6. Applying by giving **electronic application instructions** to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Friday, 15 September 2017, and in any event will not be later than Friday, 22 September 2017. If, for any reason, the Offer Price is not agreed on or before Friday, 22 September 2017, the Global Offering will not proceed and will lapse.
- (6) None of the websites or any information contained in the website forms part of this prospectus.

Share certificates will only become valid certificates of title if the Global Offering has become unconditional in all respects and the Underwriting Agreements have not been terminated in accordance with its terms, which is expected to be at or around 8:00 a.m., on Monday, 25 September 2017. Investors who trade in our Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

EXPECTED TIMETABLE⁽¹⁾

If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage fee, SFC transaction levy and Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

You should read carefully the sections headed “Underwriting”, “Structure and Conditions of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus for details relating to the structure and conditions of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable including, among other things, applicable conditions, the effect of bad weather, and the despatch of refund cheques and share certificates.

We will publish an announcement in case there is any change in the expected timetable of the Hong Kong Public Offering as described above.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or to buy, any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation to sell, or a solicitation of an offer to subscribe for or to buy, any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares, or the distribution of this prospectus, in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus to make your investment decision. We have not authorised anyone to provide you with different information. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks associated with an investment in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are an established foreign-owned CNC high precision machine tool manufacturer in the PRC. We primarily engage in the manufacture and sales of a wide range of CNC high precision machine tools under the TSUGAMI brand since our establishment in the PRC in 2003 by Tsugami Japan, a Japanese manufacturer of machine tools established in March 1937 and has been listed on the Tokyo Stock Exchange for over 50 years. The Listing involves a spin-off from Tsugami Japan and separate listing of our Group’s business on the Main Board of the Stock Exchange. According to Frost & Sullivan, we ranked fourth in the CNC high precision machine tool industry in the PRC in terms of revenue in 2016, and were the largest foreign-owned CNC high precision machine tool manufacturer in the PRC in terms of revenue in 2016. Further, according to Frost & Sullivan, we ranked first in the PRC precision automatic lathe market in terms of revenue in 2016 with a market share of approximately 34.8%, where the precision automatic lathe market accounted for approximately 1.4% of the overall PRC CNC high precision machine tool market in terms of sales volume in 2016. The PRC CNC high precision machine tool market is led by a small number of major domestic players with the rest of the market highly fragmented. The PRC CNC high precision machine tool market accounted for approximately 41.7% of the total PRC machine tool industry in terms of revenue in 2016.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths have allowed us to achieve stable growth and profitability and maintain our market position in the CNC high precision machine tool industry in the PRC:

- An established foreign-owned CNC high precision machine tool manufacturer in the PRC;
- Established sales network and strong customer base in the PRC;
- Quality and effective customer services;
- Strong and stable relationship with quality suppliers to achieve mass production;
- Advanced production technology, strong customisation and development capabilities and stringent production process and quality control; and
- Experienced and high calibre management team with a proven track record.

FUTURE STRATEGIES

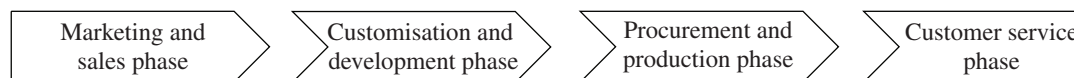
We intend to further strengthen our current market position in the PRC CNC high precision machine tool industry. We plan to achieve our goals by pursuing the following principal future strategies:

- Maintain and continue to strengthen our market position in the CNC high precision machine tool industry in the PRC;
- Broaden the application uses of our CNC high precision machine tools and further expand our sales network to increase our sales in the PRC;
- Expand our customisation and development efforts; and
- Expand our production facilities and enhance our production capacities and efficiency.

SUMMARY

BUSINESS MODEL

The following diagram illustrates our business model:



OUR PRODUCTS

We offer a wide range of CNC high precision machine tools under the TSUGAMI brand to manufacturers engaged in various industries, including IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery. The following table sets out our revenue by product category for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue
Our main products						
Precision automatic lathes	1,430,727	69.5	801,281	59.0	1,047,911	64.0
Precision turret machines	260,466	12.7	235,502	17.4	290,079	17.7
Precision machining centres	243,495	11.8	133,468	9.8	120,755	7.4
Precision grinding machines	73,384	3.6	80,984	6.0	98,453	6.0
Precision thread and form rolling machines	10,433	0.5	10,074	0.7	11,159	0.7
Others ⁽¹⁾	39,225	1.9	96,156	7.1	67,924	4.2
Total:	<u>2,057,730</u>	<u>100.0</u>	<u>1,357,465</u>	<u>100.0</u>	<u>1,636,281</u>	<u>100.0</u>

Note:

- Others primarily include sales of accessory parts and components.

Our revenue decreased for the year ended 31 March 2016 as compared to the same for the year ended 31 March 2015, primarily due to our decreased sales to the Relevant Manufacturers during the year ended 31 March 2016. For more details of our business arrangement with the Relevant Manufacturers, please refer to the paragraph headed “Our sales” on page 4 in this section. Our revenue increased for the year ended 31 March 2017 as compared to the year ended 31 March 2016, primarily due to our business growth during the same period. Such business growth was primarily the results of (i) the increase in sales of our CNC high precision machine tools to new customers in the PRC as we continued to expand our sales network; (ii) the release of certain models of our CNC high precision machine tools that had higher selling prices in general; (iii) the increase in sales of our CNC high precision machine tools with various specifications and/or customisations that had higher selling prices in general; (iv) the expansion of application uses of our CNC high precision machine tools, especially for the industries of IT and electronic products and automobile; and (v) the general increase in demand of our CNC high precision machine tools from our existing customers in the PRC. Please refer to the section headed “Financial Information – Principal income statement components – Revenue” on pages 206 to 209 and “– Period to period comparison of results of operations” on pages 218 to 227 of this prospectus for more details.

SUMMARY

PRICING

In determining the selling prices of our CNC high precision machine tools to our customers, we generally take into account factors such as, our costs of procurement and production, market competition and the anticipated market trend. We review and adjust our price strategies periodically based on these factors and other general market conditions. The table below sets out our sales volume and average selling price of our CNC high precision machine tools by product category for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	Sales volume	Average price/unit (RMB'000)	Sales volume	Average price/unit (RMB'000)	Sales volume	Average price/unit (RMB'000)
Our main products						
Precision automatic lathes	4,611	310.3	3,039	263.7	3,638	288.0
Precision turret machines	936	278.3	943	249.7	1,077	269.3
Precision machining centres	1,066	228.4	539	247.6	478	252.6
Precision grinding machines	228	321.9	231	350.6	247	398.6
Precision thread and form rolling machines	35	298.1	35	287.8	41	272.2
Total/Average:	6,876	293.6	4,787	263.5	5,481	286.1

GROSS PROFIT AND GROSS PROFIT MARGIN

The following table sets out our gross profit and gross profit margin by product category for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)
Our main products						
Precision automatic lathes	329,918	23.1	143,398	17.9	185,565	17.7
Precision turret machines	26,663	10.2	16,928	7.2	36,200	12.5
Precision machining centres	14,806	6.1	10,890	8.2	9,938	8.2
Precision grinding machines	20,336	27.7	26,501	32.7	34,478	35.0
Precision thread and form rolling machines ⁽¹⁾	4,066	39.0	2,550	25.3	1,358	12.2
Others ⁽²⁾	12,207	31.1	16,842	17.5	23,662	34.8
Total:	407,996	19.8	217,109	16.0	291,201	17.8

Notes:

- The decreases in our gross profit and gross profit margin of precision thread and form rolling machines for the years ended 31 March 2016 and 2017 were primarily due to our decreased sales of such machine tools in the PRC with various specifications and/or customisations that had higher selling prices and gross profit margin in general, and our increased sales of such machine tools to the Tsugami Japan Group with the standard specifications and/or customisations that generally had lower selling prices and gross profit margin as we were not responsible for the sales and marketing, aftersales services and technical support for these machine tools sold to the Tsugami Japan Group. As we do not mass produce precision thread and form rolling machines, the gross profit and gross profit margin of such machine tools largely depend on the specifications and/or customisations required by our customers on such machine tools.
- Others primarily include sales of accessory parts and components. Such parts and components are typically to replace the parts and components consumed during the uses of our CNC high precision machine tools or specifically produced with customisations tailored to the new requirements and/or needs of our customers. As these parts and components are not mass produced, their selling prices and gross profit margins vary.

SUMMARY

The following table sets out our gross profit and gross profit margin by customer type for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)
Distributors	192,315	22.5	181,611	25.8	244,083	23.4
Relevant Manufacturers	155,208	26.4	3,804	27.5	1,306	27.7
Other direct sales customers	22,437	39.9	15,325	27.4	15,247	36.4
Tsugami Japan Group	38,036	6.8	16,369	2.8	30,565	5.6
Total:	407,996	19.8	217,109	16.0	291,201	17.8

Note:

- Our sales to customers also included our sales of accessory parts and components.

Our gross profit and gross profit margin decreased for the year ended 31 March 2016 as compared to the same for the year ended 31 March 2015, primarily due to our decreased sales of CNC high precision machine tools with various specifications and/or customisations to the Relevant Manufacturers during the year ended 31 March 2016. For more details of our business arrangement with the Relevant Manufacturers, please refer to the paragraph headed “Our Sales” on page 4 in this section. Our overall gross profit margin also decreased for the year ended 31 March 2016, which was primarily attributable to the decrease in general economies of scale resulting from the decrease in our production volume for the same period. Our gross profit and gross profit margin both increased from the year ended 31 March 2016 to the year ended 31 March 2017. The increase in our gross profit for the year ended 31 March 2017 was primarily due to our increased sales in the PRC as a result of our continuous business expansion. The increase in our overall gross profit margin for the same period was primarily due to the increase in gross profit margins of certain of our CNC high precision machine tools sold in the PRC with various customisations and/or specifications that had higher gross profit margins in general to end customers engaged in the automobile industry, the general economies of the scale resulting from the increase in our production volume for the year ended 31 March 2017, and our ability to better control our production costs due to our customisation and development capabilities to develop and manufacture certain principal parts and components and our increased domestic procurement instead of overseas procurement at relatively competitive pricing. For further details of our gross profit and gross profit margin, please refer to the section headed “Financial Information – Principal income statement components – Gross profit and gross profit margin” on pages 212 and 213 and “– Period to period comparison of results of operations” on pages 218 to 227 of this prospectus.

OUR SALES

We primarily sell our CNC high precision machine tools in the PRC and Taiwan via our distributors to end customers engaged in various industries, including IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery. As at 31 March 2017, we had 193 distributors in the PRC and one distributor in Taiwan. We also sell CNC high precision machine tools to certain of our major end customers in the PRC by way of direct sales. In view of our mass production capabilities at our Pinghu Production Plants, the Tsugami Japan Group also procures a portion of our CNC high precision machine tools to sell to its customers based in the Other Markets, with or without further customisations. For the three years ended 31 March 2015, 2016 and 2017, the Tsugami Japan Group was our largest customer, accounted for approximately 27.2%, 43.0%

SUMMARY

and 33.5% of our total revenue for the same period, respectively. For our sales to the Tsugami Japan Group, the selling prices and gross profit margin of our CNC high precision machine tools were relatively lower as we are not responsible for the sales and marketing, aftersales services and technical support for these machine tools sold. Furthermore, we are generally able to charge for higher selling prices and gross profit margin for our CNC high precision machine tools sold with various specifications and/or customisations as our technical team has to assess and evaluate the application uses and the specific needs and requirements of end customers, select the suitable machine tool types, develop software for application uses of our CNC high precision machine tools according to the operational needs of our customers and/or end customers in order to make various specifications and/or customisations to our CNC high precision machine tools. Given that our CNC high precision machine tools procured by the Tsugami Japan Group were of relatively standard specifications and/or customisations, the selling prices and gross profit margin of our CNC high precision machine tools sold to the Tsugami Japan Group were relatively lower during the Track Record Period. Apart from this, we confirm that we offer no special discount to the Tsugami Japan Group by virtue of the fact that the Tsugami Japan Group is our connected person. For more details of our sales to the Tsugami Japan Group, please refer to the sections headed “Business” on pages 106 to 162, “Connected Transactions” on pages 163 to 169 and “Relationship with Controlling Shareholder” on pages 184 to 195 of this prospectus. We place strong emphasis on establishing and maintaining strong and stable business relationship with our customers. As at 31 March 2017, we had more than four years of business relationship with all of our top five customers.

The following table sets out our revenue by customer type for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue
Distributors	854,233	41.5	703,565	51.8	1,041,347	63.6
Relevant Manufacturers	588,052	28.6	13,838	1.0	4,723	0.3
Other direct sales customers	56,234	2.7	55,840	4.2	41,881	2.6
Tsugami Japan Group	559,211	27.2	584,222	43.0	548,330	33.5
Total:	<u>2,057,730</u>	<u>100.0</u>	<u>1,357,465</u>	<u>100.0</u>	<u>1,636,281</u>	<u>100.0</u>

Note:

- Our sales to customers also included our sales of accessory parts and components.

During the Track Record Period, based upon the business relationship between Tsugami Japan and the Electronics Company, an international electronics company and an Independent Third Party, and in view of our mass production capabilities at our Pinghu Production Plants, we also provided certain CNC high precision machine tools to the Relevant Manufacturers, which, to our best knowledge, are suppliers of the Electronics Company. For the three years ended 31 March 2015, 2016 and 2017, our revenue derived from the Relevant Manufacturers amounted to approximately RMB588.1 million, RMB13.8 million and RMB4.7 million, respectively, accounted for approximately 28.6%, 1.0% and 0.3% of our total revenue for the same period, respectively. Our relatively higher revenue from the Relevant Manufacturers for the year ended 31 March 2015 was primarily due to us receiving a large amount of sales orders from them for the same period, which, to the best knowledge of our Directors, ahead of the release of certain major new product of the Electronics Company. In addition, as we sold a large volume of CNC high precision machine tools with various specifications and/or customisations that had higher selling prices and gross profit margin in general to the Relevant Manufacturers during the year ended 31 March 2015, our gross profit and gross profit margin were relatively higher for the year ended 31 March 2015. For more details of our sales arrangement with the Relevant Manufacturers, please refer to the section headed “Business – Sales – Our customers – PRC sales – Direct sale customers” on pages 130 to 131 of this prospectus. Save for the Relevant Manufacturers, our Directors confirm that there was no other customer referred by Tsugami Japan during the Track Record Period.

SUMMARY

OUR PROCUREMENT AND PRODUCTION

During the Track Record Period, we purchased certain principal parts and components from Tsugami Japan to manufacture our CNC high precision machine tools. For the three years ended 31 March 2015, 2016 and 2017, Tsugami Japan was our largest supplier, accounted for approximately 32.9%, 29.1% and 28.2% of our total purchases for the same periods, respectively. For more details of our procurement of parts and components from Tsugami Japan, please refer to the sections headed “Business” on pages 106 to 162, “Connected Transactions” on pages 163 to 169 and “Relationship with Controlling Shareholder” on pages 184 to 195 of this prospectus. Nevertheless, we have developed and manufactured certain principal parts and components and have also gradually increased our purchases from domestic suppliers to reduce our overseas procurement from Tsugami Japan.

We manufacture all of our CNC high precision machine tools at our Pinghu Production Plants located in Pinghu, Zhejiang province, the PRC. Our Pinghu Production Plants currently consist of four major production plants. As at 31 March 2017, we had a total of 895 production staff at our Pinghu Production Plants. For the three years ended 31 March 2015, 2016 and 2017, our production volume at our Pinghu Production Plants was 6,599, 4,476 and 5,417 units, respectively, and our utilisation rate was approximately 110.0%, 74.6% and 90.3%, respectively. We typically need to switch and use different production machinery and equipment to manufacture different models of CNC high precision machine tools during our production process. On the basis of 20 operating hours per working day (inclusive of the switching time of production machinery and equipment for manufacturing different machine tools), the switching time for different production machinery and equipment during our production process would, to a certain extent, affect our utilisation rate and actual production volume of CNC high precision machine tools that we can manufacture. For the year ended 31 March 2015, as the Relevant Manufacturers required a large volume of similar models of CNC high precision machine tools, we were able to reduce the switching time for different production machinery and equipment during our production process and spend such switching time on manufacturing machine tools. Hence our utilisation rate and actual production volume both increased for the year ended 31 March 2015. We plan to expand our production facilities to enhance our production efficiency and capacities. We anticipate that our planned capital expenditures will be financed by the net proceeds from the Global Offering. For more details of our production and planned capital expenditures, please refer to the sections “Business – Production” on pages 137 to 143, “Financial Information – Capital Expenditures – Planned capital expenditures” on page 244 and “Future Plans and Use of Proceeds” on pages 257 to 259 of this prospectus.

OUR CUSTOMISATION AND DEVELOPMENT

Originated from Tsugami Japan, we have been licensing the Technology from Tsugami Japan to manufacture and provide certain aftersales services for our CNC high precision machine tools. We confirm that we currently use such licensed Technology to manufacture all of our CNC high precision machine tools. Pursuant to the Technology Licence Agreement, Tsugami Japan cannot terminate the Technology Licence Agreement unilaterally unless we commit a material breach of the Technology Licence Agreement which is not remedied in accordance with the terms therein. Taking into account that (i) the Technology Licence Agreement will be automatically renewed for a successive period of three years thereafter unless notified by us in advance or otherwise terminated earlier pursuant to the Technology Licence Agreement, and (ii) Tsugami Japan cannot unilaterally terminate the Technology Licence Agreement without cause, our Directors are of the view that from our Group’s perspective, the Technology Licence Agreement is in effect perpetual at our election in nature. Moreover, in the event that the Technology Licence Agreement is terminated for whatever reason, we are allowed to continue to use the Technology and/or any technical information passed under the Technology Licence Agreement from Tsugami Japan to us for our ordinary course of business and we can retain all documents, technical information and know-how relating to or in connection with the Technology.

Since we are permitted to continue to use the Technology and/or any technical information in respect of the CNC high precision machine tools we are currently manufacturing even if the Technology Licence Agreement is terminated, the production of our existing CNC high precision machine tools will not be materially affected. In addition, as confirmed by Frost & Sullivan, there are alternative suppliers of similar technology available and also similar technology licensing transactions in the PRC market at the licensing rates comparable to our

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royalty rate of 1.0% for our older models and 5.0% for our newer models of CNC high precision machine tools under the Technology Licence Agreement. For more details of alternative suppliers of similar technology available in the PRC market, please refer to the section headed “Industry Overview – Technology” on page 75 of this prospectus. Based on the above, our Directors believe that termination of the Technology Licence Agreement will not cause material adverse impact on our operations nor will affect the sustainability of our business operations going forward. Furthermore, with our established industrial expertise and reputation accumulated throughout the years, and our customisation and development capabilities and stringent quality control, we believe that we have established our market position and maintained a stable customer base in the PRC CNC high precision machine tool industry. For the three years ended 31 March 2015, 2016 and 2017, our Trademarks and Technology licence fees paid to Tsugami Japan amounted to approximately RMB93.7 million, RMB58.8 million and RMB74.1 million, respectively. For more details of our continuing licencing of the Technology from Tsugami Japan, please refer to the sections headed “Business” on pages 106 to 162, “Connected Transactions” on pages 163 to 169 and “Relationship with Controlling Shareholder” on pages 184 to 195 of this prospectus. We have been continuously making efforts in our own customisation and development capabilities to strengthen our production technology standard, improve our production techniques, and develop principal parts and components and software for application uses to manufacture our CNC high precision machine tools. As at the Latest Practicable Date, we had 68 registered patents in the PRC, primarily relating to our machine tools and parts and components for the manufacture of CNC high precision machine tools, and six registered copyrights in the PRC in relation to our software for the application uses of our CNC high precision machine tools.

PRE-IPO SHARE OPTIONS

In recognition of the contributions of and to attract, retain and motivate our employees and executive officers, we also introduced the Pre-IPO Share Option Scheme and a total of 55 eligible participants have been granted the Pre-IPO Share Options, eight among whom had left our Group and hence ceased to be an eligible employee under the Pre-IPO Share Option Scheme. As such, the Pre-IPO Share Options granted to them for a total of 756,000 Shares have lapsed. As at the Latest Practicable Date, the Pre-IPO Share Options for a total of 7,870,000 Shares granted under the Pre-IPO Share Option Scheme remain outstanding. Based on the total number of 360,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the Over-allotment Option), if all the outstanding Pre-IPO Share Options for a total of 7,870,000 Shares are exercised in full, there would be a dilution effect of approximately 2.1% on our earnings per Share. For further details, please refer to the section headed “Statutory and General Information – 8. Pre-IPO Share Option Scheme” in Appendix V to this prospectus.

SHAREHOLDER INFORMATION

Our Controlling Shareholder, Tsugami Japan, beneficially owns 75.0% of the issued share capital of our Company upon completion of the Capitalisation Issue and the Global Offering, taking no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option or the Pre-IPO Share Options.

Our Controlling Shareholder, Tsugami Japan, is a long-established Japanese manufacturer of machine tools established in March 1937 and has been listed on the Tokyo Stock Exchange for over 50 years. Tsugami Japan divides its manufacturing and sales organisations geographically and we are the only subsidiaries established in the PRC by Tsugami Japan. While we focus our sales and marketing in the PRC and Taiwan, the Tsugami Japan Group focuses its sales and marketing in the Other Markets. Our Directors are of the view that there is a clear delineation between the business of our Group and that of the Tsugami Japan Group, taking into account the geographical location of sales and distribution, the business focus, the nature of the machine tools manufactured and the nature of production. To ensure that there is a clear delineation of business between our Group and the Tsugami Japan Group after Listing, our Controlling Shareholder has entered into the Deed of Non-competition not to compete with our business. Also, we have entered into, and are expected to continue after the Listing, certain continuing connected transactions with the Tsugami Japan Group. For more details, please refer to the sections headed “Relationship with the Controlling Shareholder” on pages 184 to 195 and “Connected Transactions” on pages 163 to 169 of this prospectus.

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SPIN-OFF FROM TSUGAMI JAPAN

The Listing involves a spin-off and separate listing of our Group's business on the Main Board of the Stock Exchange from Tsugami Japan. Based on the average closing stock price of JPY886.8 for the five trading days immediately preceding the Latest Practicable Date and the number of outstanding shares of 64,919,379 shares, the market capitalisation of Tsugami Japan is approximately JPY57,571 million as at the Latest Practicable Date. According to the published business reports of Tsugami Japan, for the three years ended 31 March 2015, 2016 and 2017, (i) consolidated net sales of Tsugami Japan amounted to approximately JPY54,132 million (equivalent to approximately RMB3,313 million), JPY40,132 million (equivalent to approximately RMB2,456 million) and JPY41,050 million (equivalent to approximately RMB2,513 million), respectively; and (ii) net income attributable to equity holders amounted to approximately JPY5,297 million (equivalent to approximately RMB324 million), JPY877 million (equivalent to approximately RMB54 million) and JPY2,630 million (equivalent to approximately RMB161 million), respectively. The reasons for the spin-off are set out below:

Different business focuses

We have been focusing on the PRC and Taiwan markets. As disclosed in the sections headed "Business – Production – Future expansion plan" and "Future Plans and Use of Proceeds" in this prospectus, we intend to expand our existing business in the PRC and Taiwan markets. Given there is different geographical location of sales and distribution, different business focus and nature of machine tools manufactured by our Group and Tsugami Japan and different nature of production as disclosed in the section headed "Relationship with Controlling Shareholder – Business delineation" in this prospectus, our Directors consider that the spin-off will provide investors, the market and customers with greater clarity on the respective business focuses of our Group and of the Tsugami Japan Group. It therefore makes most sense and is most appropriate for us to seek the Listing given that our business focus is in the PRC and Taiwan. We consider it will best support our future growth by directly listing our Company, instead of a dual-listing of Tsugami Japan where proceeds of fund raising activities would have to be channelled through Tsugami Japan to us indirectly. The investors can also choose to invest separately based on their own assessment of the distinct business focuses, risks and returns of our Group and that of the Tsugami Japan Group.

Diversify our capital structure and enhance overall financial capacity

To support our development and to capture the opportunities in the PRC and Taiwan markets, it is in our interest to diversify our capital structure instead of relying on banking facilities. We intend to utilise the proceeds of the Listing for our expansion plans as disclosed in the sections headed "Business – Production – Future expansion plan" and "Future Plans and Use of Proceeds" in this prospectus, and tap into additional financial resources for our future growth. Our financial condition is expected to be enhanced by using part of the net proceeds to repay part of our bank loans. Moreover, the Listing will also allow us to attract cornerstone investors and create synergies with potential strategic investors.

Enhance our corporate governance and operational transparency

As a listed company on the Stock Exchange following the Listing, we will have to strictly comply with the Listing Rules and adopt a series of corporate government measures after the Listing which will help enhance the operational transparency of our Group.

Incentive to our employees

Our Directors believe that the Listing will provide reward and incentive to our current employees for continuing to contribute to us through the Pre-IPO Share Option Scheme, and will also attract talents with experience and expertise in the PRC CNC high precision machine tool industry to work for us.

Use of resources for Tsugami Japan

Tsugami Japan has been already listed on the Tokyo Stock Exchange for over 50 years. It may raise funds for its business operations on the Tokyo Stock Exchange if such need arises. After our Listing, since we expect to support our business operation and/or our future growth through the existing platform under the Stock Exchange instead of capital or resources from Tsugami Japan, we believe that Tsugami Japan can deploy its capital or resources to develop its own business.

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As confirmed by Tsugami Japan, there has not been any material or systematic non-compliance with any rules and/or regulations applicable to the Tsugami Japan Group during the Track Record Period. Further, as advised by our Japanese Legal Advisers, the Listing is not subject to approval by the general meeting of the shareholders of Tsugami Japan, nor any approvals or consents under the laws of Japan or rules of the Tokyo Stock Exchange.

PURPOSES OF FUNDING

While our Directors believe that our current resources and unutilised banking facilities will be sufficient for our existing operations, the Global Offering will afford our Group with additional funding which will allow us to strengthen our market position and capture potential growth by implementing our future plans as detailed in the section headed “Business – Future strategies” in this prospectus. These plans will include, in particular, expanding our production facilities and sales network as set out in further details in the section headed “Future Plans and Use of Proceeds – Use of proceeds” in this prospectus. Our Directors believe that the Global Offering will bring about a lower debt ratio to strengthen our financial position, and in combination with the reasons and benefits of the spin-off as set out above, the Global Offering will be beneficial to us as a whole.

RISK FACTORS

Our Directors believe that there are certain risks involved in our operations. Many of these risks are beyond our control. A detailed discussion of the risk factors that we believe are particularly relevant to us is set out in the section headed “Risk Factors” on pages 32 to 53 of this prospectus. Set out below are some of the major risks that may materially and adversely affect us:

- During the Track Record Period, the Tsugami Japan Group was our largest customer and Tsugami Japan was our largest supplier and we had also licensed the Trademarks and the Technology from Tsugami Japan, and failure to maintain such business arrangements may materially and adversely affect our business, results of operations and financial condition;
- We depend on a small number of major customers, and loss of any one or more of these customers may materially and adversely affect our business, results of operations and financial condition;
- If the TSUGAMI brand is harmed, our business may be materially and adversely affected;
- Demand for our CNC high precision machine tools depends on, among other things, the trends and developments in the downstream industries, such as the industries of IT and electronic products and automobile, and the condition of the global economy; and
- Fluctuation in foreign exchange rates may materially and adversely affect our business, results of operations and financial condition.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The tables below present the summaries of selected consolidated financial information of our Group for the Track Record Period, which are derived from, and should be read in conjunction with our financial information, including the notes thereto, set out in the accountants’ report in Appendix I to this prospectus.

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Summary of consolidated statements of profit or loss and total comprehensive income

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Revenue	2,057,730	1,357,465	1,636,281
Cost of sales ⁽¹⁾	(1,649,734)	(1,140,356)	(1,345,080)
Gross profit	407,996	217,109	291,201
Other income and gains ⁽²⁾	18,746	11,922	3,957
Profit before tax	253,299	78,218	159,930
Profit and total comprehensive income for the year	178,295	55,808	112,566

Notes:

1. Our cost of sales primarily consists of our cost of parts and components, production overhead and direct labour. The cost of parts and components was the largest component of our cost of sales for the Track Record Period, accounted for approximately 78.6%, 77.0%, 76.8% of our total cost of sales for the three years ended 31 March 2015, 2016 and 2017, respectively.
2. Our other income and gains primarily included our gain on foreign exchange and government grants received during the Track Record Period. Government grants mainly represented the supportive incentive granted by the local government to support local business enterprises for the purpose of encouraging business development.

Our net profit decreased significantly for the year ended 31 March 2016 as compared to the same for the year ended 31 March 2015, primarily as a result of the decrease in our gross profit from approximately RMB408.0 million to approximately RMB217.1 million for the same period. Such decrease was primarily attributable to our decreased sales of precision automatic lathes with various specifications and/or customisations to the Relevant Manufacturers while our production overhead costs were generally fixed costs and were relatively less sensitive to our decreased sales for the year ended 31 March 2016. The decrease in our net profit for the year ended 31 March 2016 was also attributable to the increase in our other expenses for the same period, primarily due to our losses on foreign exchange as a result of the effect of the general appreciation of JPY and USD against Renminbi on our repayment of short-term bank borrowings denominated in USD and our overseas procurement from Tsugami Japan denominated in JPY, which were partially offset by the same appreciation effect on our overseas sales to the Tsugami Japan Group denominated in JPY.

Summary of consolidated statements of financial position

	As at 31 March			As at 31 July
	2015	2016	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	957,004	728,229	1,013,494	1,118,246
Current liabilities	866,233	577,057	743,349	776,745
Net current assets	90,771	151,172	270,145	341,501

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Summary of consolidated cash flows information

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net cash flows generated from operating activities	375,183	49,694	182,900
Net cash flows used in investing activities . .	(65,099)	(22,941)	(10,096)
Net cash flows used in financing activities . .	(320,880)	(19,751)	(144,994)
Net increase/(decrease) in cash and cash equivalents	(10,796)	7,002	27,810
Cash and cash equivalents at beginning of year	99,887	89,091	96,093
Cash and cash equivalents at end of year	89,091	96,093	123,903

Key financial ratios

	Year ended/As at 31 March		
	2015	2016	2017
Gross profit margin	19.8%	16.0%	17.8%
Net profit margin	8.7%	4.1%	6.9%
Return on equity	33.9%	9.9%	17.3%
Current ratio	1.1	1.3	1.4
Quick ratio	0.3	0.4	0.7
Gearing ratio ⁽¹⁾	69.2%	67.2%	42.1%

Note:

- Gearing ratio represents bank loans and other borrowings divided by total equity as at the end of the financial year.

For more details of our financial ratios, please refer to the section headed “Financial Information – Financial ratios” in this prospectus.

FOREIGN EXCHANGE

We currently sell a portion of our CNC high precision machine tools to the Tsugami Japan Group and procure certain parts and components from Tsugami Japan. During the Track Record Period, a substantial portion of our overseas sales and procurement were denominated and settled in JPY. Although we realised gain on foreign exchange for the year ended 31 March 2015 of approximately RMB15.6 million, primarily as a result of the effect of the general depreciation of JPY and USD against Renminbi on our overseas procurement from Tsugami Japan denominated in JPY and our bank loans denominated in USD, we realised losses on foreign exchange for the years ended 31 March 2016 and 2017 of approximately RMB16.0 million and RMB2.1 million, respectively. Such foreign exchange losses were primarily due to the effect of the general appreciation of JPY and USD against Renminbi on our procurement from Tsugami Japan denominated in JPY and our repayment of short-term bank borrowings denominated in USD. In order to reduce our foreign exchange exposure, since May 2016, we have started and gradually settled part of our sales to the Tsugami Japan Group and part of our procurement from Tsugami Japan in Renminbi instead of JPY. For the year ended 31 March 2017, approximately 29.4% of our sales to Tsugami Japan Group and approximately 16.1% of our purchases from Tsugami Japan were denominated in JPY, respectively. Further, we had also settled all of our bank loans in other currencies as at the Latest Practicable Date. All of our bank loans are currently denominated in Renminbi.

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We currently do not have a hedging policy in place to minimise our foreign exchange exposure. Nevertheless, our management has and will continue to closely monitor our foreign exchange exposure and take appropriate actions, including for example, hedging significant foreign exchange exposure, should the need arise. For further details of how foreign exchange rates affect our business, results of operations and financial condition, please refer to the sections headed “Risk Factors – Risks relating to our business – Fluctuation in foreign exchange rates may materially and adversely affect our business, results of operations and financial condition”, “Financial Information – Factors affecting our results of operations – Foreign exchange” and “Financial Information – Quantitative and qualitative disclosures about market risks – Foreign currency risk” in this prospectus.

RECENT DEVELOPMENT

As far as we are aware, the PRC CNC high precision machine tool market remained stable after the Track Record Period. We did not experience any significant drop in revenue or increase in cost of sales or other costs subsequent to the Track Record Period up to the Latest Practicable Date as there were no significant changes to the general business model of our Group and economic environment.

The following represents our management’s analysis on our results of operations for the three months ended 30 June 2017. Our Directors are responsible for the preparation and fair presentation of the unaudited condensed consolidated financial statements of our Group for the three months ended 30 June 2017 in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. Our condensed consolidated financial statements for the three months ended 30 June 2017 are unaudited but have been reviewed by our reporting accountants, Ernst & Young, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

Based on our unaudited condensed consolidated financial statements, our total revenue increased by approximately 84.6%, or RMB272.6 million, from approximately RMB322.2 million for the three months ended 30 June 2016 to approximately RMB594.8 million for the three months ended 30 June 2017, primarily due to our business growth during the same period. Such business growth was primarily the results of (i) sales of our CNC high precision machine tools to new customers in the PRC as we continued to expand our sales network; (ii) the expansion of application uses of our CNC high precision machine tools, especially for the industry of automobile; and (iii) the general increase in demand of our CNC high precision machine tools from our customers in the PRC. Based on our unaudited condensed consolidated financial statements, our gross profit increased by approximately 104.4% for the three months ended 30 June 2017 as compared to the same for the three months ended 30 June 2016, primarily due to our increased sales as a result of our continuous business expansion. Our overall gross profit margin also increased by approximately 2.0% for the three months ended 30 June 2017 as compared to the same for the three months ended 30 June 2016, primarily due to the general economies of the scale resulting from the increase in our sales volume for the three months ended 30 June 2017.

Based on our unaudited consolidated management amount, as at 31 July 2017, we had net current asset of approximately RMB341.5 million and unutilised banking facilities of approximately RMB426.9 million.

TSUGAMI JAPAN FIRST QUARTER RESULTS

Warning Statement

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS TO MAKE YOUR INVESTMENT DECISION. IN PARTICULAR, YOU SHOULD NOT RELY ON ANY PARTICULAR STATEMENTS IN OTHER PUBLISHED ANNOUNCEMENTS, PRESS AND MEDIA COVERAGE AND/OR RESEARCH ANALYST REPORTS RELATING TO OUR CONTROLLING SHAREHOLDER, TSUGAMI JAPAN, OUR GROUP AND THE GLOBAL OFFERING. PLEASE REFER TO THE SECTION HEADED “DISCLOSURE BY THE CONTROLLING SHAREHOLDER” IN THIS PROSPECTUS.

On 28 July 2017 and 9 August 2017, Tsugami Japan published its financial results summary and report for the three months ended 30 June 2017 on the Tokyo Stock Exchange, respectively (collectively, the “**TJ First Quarter Results**”). The following is a summary of the

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selected financial information relating to Tsugami Japan's performance in its China segment, which comprises the whole financial performance of our Group for the same period, extracted from the TJ First Quarter Results:

	Three months ended 30 June 2017
	JPY million
Net sales	9,800
Operating income	1,375

Tsugami Japan announced that (i) the net sales of its China segment increased by approximately 87.2% from JPY5,236 million for the three months ended 30 June 2016 to JPY9,800 million for the three months ended 30 June 2017; and (ii) the operating income for its China segment also increased from JPY628 million for the three months ended 30 June 2016 to JPY1,375 million for the three months ended 30 June 2017. As confirmed by Tsugami Japan, the net sales of its China segment in the TJ First Quarter Results was derived from our revenue, and the operating income of its China segment in the TJ First Quarter Results was derived from our gross profit less selling and distribution expenses and administrative expenses. Our Directors confirm that there is no material difference between the financial information of its China segment published by Tsugami Japan and our financial information.

The TJ First Quarter Results were prepared by Tsugami Japan for its own reporting and disclosure purpose. We make no representation as to the appropriateness, accuracy, completeness or reliability of the information disclosed in the TJ First Quarter Results. Investors should not rely on any particular statements from the TJ First Quarter Results, or in other published announcements, press and media coverage and/or research analyst reports relating to Tsugami Japan, our Group and the Global Offering other than those issued by us.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there had been no material adverse change in our financial or trading position since 31 March 2017 and there is no event since 31 March 2017 which would materially affect the information shown in the accountants' report in Appendix I to this prospectus.

DIVIDEND

For the three years ended 31 March 2015, 2016 and 2017, we paid dividends of nil, approximately RMB17.5 million and RMB26.6 million, respectively, to our then equity holder. In May 2017, we further declared dividend of HK\$16.0 million to our then equity holder. After Listing, we intend to declare and pay dividends every year, but we currently do not have a fixed dividend payout ratio. Please refer to the section headed "Financial Information – Dividend" on page 253 of this prospectus for more details.

KEY OFFERING STATISTICS⁽¹⁾

	Based on an Offer Price of HK\$4.60 per Offer Share	Based on an Offer Price of HK\$5.60 per Offer Share
Market capitalisation of our Shares ⁽²⁾	HK\$1,656 million	HK\$2,016 million
Pro forma adjusted net tangible asset value per Share ⁽³⁾	HK\$2.68	HK\$2.84

Notes:

- (1) All statistics in this table assume the Over-allotment Option and the Pre-IPO Share Options are not exercised.
- (2) The calculation of market capitalisation is based on 360,000,000 Shares expected to be in issue immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised at all).

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- (3) The pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to the unaudited pro forma financial information in Appendix II to this prospectus and on the basis of 360,000,000 Shares issued at the respective indicative Offer Prices of HK\$4.60 per Offer Share and HK\$5.60 per Offer Share following the Global Offering.
- (4) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of our Company does not take into account a cash dividend of HK\$16,000,000 to our Controlling Shareholder approved by our Board on 25 May 2017. The cash dividend was paid on 12 June 2017. Had the cash dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of our Company per Share would be HK\$2.64 per Share (based on the Offer Price of HK\$4.60 per Offer Share) or HK\$2.80 per Share (based on the Offer Price of HK\$5.60 per Offer Share).

LISTING EXPENSES

For the years ended 31 March 2015, 2016 and 2017, we incurred listing expenses of approximately HK\$18.6 million, HK\$5.8 million and HK\$11.9 million, respectively, of which approximately HK\$15.6 million, HK\$6.9 million and HK\$11.0 million, respectively, were charged to our consolidated statements of profit or loss and other comprehensive income for the same periods and approximately HK\$2.8 million in total was recorded as advance payment, and will be charged to equity upon Listing. We expect to further incur listing expenses (including underwriting commissions) of approximately HK\$42.2 million (based on mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised) by the completion of the Global Offering, of which an estimated amount of approximately HK\$21.2 million will be charged to our consolidated statements of profit or loss and other comprehensive income and an estimated amount of approximately HK\$21.0 million will be charged to equity. We do not expect these listing expenses to have a material impact on our business and results of operations for the year ending 31 March 2018.

USE OF PROCEEDS

We estimate that the aggregate net proceeds of the Global Offering to be received by us (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$5.10 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$4.60 to HK\$5.60 per Offer Share) will be approximately HK\$227.5 million, assuming that the Over-allotment Option is not exercised. We currently intend to apply such net proceeds in the following manner:

- approximately HK\$42.4 million, representing approximately 18.6% of the net proceeds from the Global Offering to our Company, is expected to be used primarily for the rebuilt and renovation of part of our production plant four;
- approximately HK\$17.4 million, representing approximately 7.6% of the net proceeds from the Global Offering to our Company, is expected to be used primarily for purchasing and replacing production machinery and equipment for our Pinghu Production Plants;
- approximately HK\$1.7 million, representing approximately 0.8% of the net proceeds from the Global Offering to our Company, is expected to be used for further expanding our sales network and increasing our market penetration in the PRC; and
- approximately HK\$166.0 million, representing approximately 73.0% of the net proceeds from the Global Offering to our Company, is expected to be used primarily for repaying part of our bank loans.

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholder in the Global Offering. Please refer to the section headed “Future Plans and Use of Proceeds” on pages 257 to 259 of this prospectus for further information on our use of net proceeds of the Global Offering.

TRANSFER PRICING

From the standpoint of PTC as a taxpayer, we had engaged a PRC tax consultant to prepare transfer pricing reports on PTC for each of the five years ended 31 December 2016 to demonstrate that the transactions conducted by PTC with its related parties during these periods were in ordinary course of business and on an arm’s length basis, and did not violate relevant requirements under the PRC laws, regulations and administrative rulings in relation to transfer pricing.

DISCLOSURE BY THE CONTROLLING SHAREHOLDER

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS TO MAKE YOUR INVESTMENT DECISION. IN PARTICULAR, YOU SHOULD NOT RELY ON ANY PARTICULAR STATEMENTS IN OTHER PUBLISHED ANNOUNCEMENTS, PRESS AND MEDIA COVERAGE AND/OR RESEARCH ANALYST REPORTS RELATING TO OUR CONTROLLING SHAREHOLDER, TSUGAMI JAPAN, OUR GROUP AND THE GLOBAL OFFERING.

Prior to Listing

Prior to the publication of this prospectus, there have been, and there may be subsequent to the date of this prospectus but prior to our Listing, announcements, press and media coverage and research analyst reports regarding Tsugami Japan and its subsidiaries (including our Group) and the Global Offering, which have also included or will include certain historical and forward-looking financial information under JGAAP about Tsugami Japan and its subsidiaries (including our Group) and information about business operation and strategic development concerning Tsugami Japan and its subsidiaries (including our Group), that do not appear in this prospectus. Forward-looking financial or business information contained in such announcements, press and media coverage and research analyst reports or other documents not authorised by us should not, in any way, be interpreted as profit projection or business forecast of our Group.

Tsugami Japan published its financial results summary and report on 28 July 2017 and 9 August 2017, respectively, which contained analysis of the operating results and financial position of Tsugami Japan and its subsidiaries (including our Group) for the three months ended 30 June 2017. To the best knowledge of our Directors, other than the aforesaid and any disclosure which may be required to be published by Tsugami Japan upon the occurrence of any material event which may result in significant adjustment to published forecasted financial figures, Tsugami Japan has no current plan to publish any other the forward looking financial information of our Group before the Listing.

Our Company does not endorse or participate in the disclosure of any such announcements, press and media coverage and research analyst reports, and thus our Company does not accept any responsibility for any such publications nor information contained in such publications. In particular, our Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. If any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information in this prospectus, our Company disclaims it.

After the Listing

There may continue to be publication of announcements, press and media coverage and/or research analyst reports regarding Tsugami Japan and its subsidiaries (including our Group) after our Listing. Tsugami Japan may continue to publish certain historical and forward-looking financial information about the operations and financial condition in the ordinary course of business of Tsugami Japan and its subsidiaries (including our Group). In particular, Tsugami Japan will publish its consolidated periodic financial information, which covers the business and financial performance of our Group, on a quarterly basis. Tsugami Japan prepares its financial results under JGAAP pursuant to the requirements of the FIEA on a consolidated

DISCLOSURE BY THE CONTROLLING SHAREHOLDER

basis without taking into account the impact or effect of any intra-group transactions or differences in scope of business that are relevant to our reporting and disclosure purposes, whereas we prepare our financial statements in accordance with IFRS taking into account, among other things, the impact of connected transactions with the Tsugami Japan Group. Accordingly, any forward-looking financial information published by Tsugami Japan should not be considered as profit forecasts and estimations of our Group within the ambit of the Listing Rules and the financial results published by Tsugami Japan do not necessarily contain financial information which is accurate or precise with respect to our Group. You should not place undue reliance on such information.

Accordingly, you should rely only on the information contained in this prospectus to make your investment decision and should not rely on any other information.

We will make announcements from time to time and as may be required under Rule 13.09 of the Listing Rules relating to our Group's business and operations.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company, conditionally adopted on 4 September 2017 and which will come into effect upon Listing, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law – Articles of Association” in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day on which the Stock Exchange is open for the business of dealing in securities
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of the Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and General Information – 1. Further information about our Group – Written resolutions of the sole Shareholder of our Company passed on 4 September 2017” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“CNC System Panel Manufacturer”	a manufacturer of CNC system panels and an Independent Third Party
“CNC System Panel PRC Supplier”	a PRC supplier of CNC system panels, a joint venture of the CNC System Panel Manufacturer, and an Independent Third Party
“Companies Law” or “Cayman Companies Law”	the Companies Law (2016 Revision) of the Cayman Islands, Cap. 22 (Law 3 of 1961) as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Precision Tsugami (China) Corporation Limited (津上精密機床(中國)有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 2 July 2013
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules and in the case of our Company, means Tsugami Japan
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)

DEFINITIONS

“Deed of Indemnity”	a deed of indemnity dated 4 September 2017 entered into between our Controlling Shareholder and our Company as referred to in the section headed “Statutory and General Information – 9. Other Information – A. Tax and other indemnities” in Appendix V to this prospectus
“Deed of Non-competition”	a deed of non-competition dated 4 September 2017 entered into between our Controlling Shareholder and our Company, details of which are disclosed in the section headed “Relationship with Controlling Shareholder – Non-competition undertakings” in this prospectus
“Director(s)”	director(s) of our Company
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“Electronics Company”	an international electronics company and an Independent Third Party
“FIEA”	the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended)
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultant of our Company
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Grantee(s)”	person(s) being granted Pre-IPO Share Options under the Pre-IPO Share Option Scheme
“GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“HK\$”, “HK dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

DEFINITIONS

“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form – www.hkeipo.hk
“ HK eIPO White Form Service Provider ”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website www.hkeipo.hk
“ HKICPA ”	Hong Kong Institute of Certified Public Accountants
“ HKSCC ”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“ HKSCC Nominees ”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“ Hong Kong ”, “ HKSAR ” or “ HK ”	the Hong Kong Special Administrative Region of the PRC
“ Hong Kong Branch Share Registrar ”	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office
“ Hong Kong Offer Shares ”	the 9,000,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“ Hong Kong Public Offering ”	the offer for subscription of Offer Shares to the public in Hong Kong (subject to adjustment as described in the section headed “Structure and Conditions of the Global Offering”) at the Offer Price (plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“ Hong Kong Underwriters ”	the underwriters of the Hong Kong Public Offering whose names are set out in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated 11 September 2017 relating to the Hong Kong Public Offering entered into by our Company, our Controlling Shareholder, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters
“IFRS”	International Financial Reporting Standards
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which, as far as our Directors are aware after having made reasonable enquiries, is/are independent of and not connected with (within the meaning of the Listing Rules) our Company, any Director, chief executive or substantial shareholder of our Company, its subsidiaries or any of their respective associates
“International Offer Shares”	81,000,000 Shares, comprising 51,000,000 new Shares and 30,000,000 Sale Shares, being initially offered by our Company and the Selling Shareholder pursuant to the International Offering, together with any additional Shares being offered by our Company pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Offering”	the offer of International Offer Shares to as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Offering and parties to the International Underwriting Agreement as described in the section headed “Underwriting – The International Offering” in this prospectus
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering, which is expected to be entered into by, among other parties, our Company, our Controlling Shareholder, the Selling Shareholder, the Sole Global Coordinator and the International Underwriters on or around 15 September 2017
“Issue Mandate”	the general unconditional mandate given to our Directors relating to the issue of new Shares, as further described in the section headed “Statutory and General Information – 1. Further information about our Group – Written resolutions of the sole Shareholder of our Company passed on 4 September 2017” in Appendix V to this prospectus

DEFINITIONS

“Japanese Legal Advisers”	City-Yuwa Partners, the legal advisers to our Company as to Japanese law
“JGAAP”	Japanese generally accepted accounting principles
“Joint Bookrunners” or “Joint Lead Managers”	BOCI Asia Limited, Halcyon Securities Limited and Hong Kong Asset Management Limited, being the joint bookrunners and joint lead managers of the Global Offering
“JPY” or “¥”	Japanese yen, the lawful currency of Japan
“Latest Practicable Date”	4 September 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of our Shares on the Main Board
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date expected to be on or about 25 September 2017, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the main board of the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Master Purchase Agreement”	the master purchase agreement entered into between Tsugami Japan and our Company dated 4 September 2017, details of which are set out in the section headed “Connected Transactions – Non-exempt continuing connected transactions – Procurement from Tsugami Japan” in this prospectus
“Master Sales Agreement”	the master sales agreement entered into between Tsugami Japan and our Company dated 4 September 2017, details of which are set out in the section headed “Connected Transactions – Non-exempt continuing connected transactions – Sales of our CNC high precision machine tools to Tsugami Japan Group” in this prospectus

DEFINITIONS

“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company, conditionally adopted on 4 September 2017 and which will come into effect upon Listing, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law – Summary of the Constitution of our Company – 1. Memorandum of Association” in Appendix IV to this prospectus
“MOFCOM”	The Ministry of Commerce of the PRC (中華人民共和國商務部)
“Offer Price”	the final price per Share in Hong Kong dollars (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of no more than HK\$5.60 at which the Offer Shares are to be subscribed for and issued or offered for sale pursuant to the Global Offering, to be determined as further described in the section headed “Structure and Conditions of the Global Offering – Pricing” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, together, where relevant, with any additional Shares issued pursuant to the Over-allotment Option
“Other Components”	Tsugami Japan Components and Third-party Components
“Other Markets”	markets outside the PRC before June 2016 and markets outside the PRC and Taiwan since June 2016
“Over-allotment Option”	the option to be granted by our Company to the Sole Global Coordinator on behalf of the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 13,500,000 additional Shares at the Offer Price, representing 15.0% of total number of Offer Shares initially available under the Global Offering, to cover, among other things, over-allocation in the International Offering, if any

DEFINITIONS

“Pinghu Production Plants”	our production facilities located at Nos. 2001, 2008 and 2088, Pingcheng Road, Pinghu Economic and Technology Development District, Zhejiang province, the PRC, details of which are set out in the section headed “Business – Production – Production plants” in this prospectus
“PRC” or “China”	People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires otherwise, references in this prospectus to “China” and the “PRC” do not apply to Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Advisers”	Grandall Law Firm (Shanghai), the legal advisers as to PRC laws to our Company
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme approved and adopted by our Company pursuant to resolutions passed by the sole Shareholder on 14 March 2014, the principal terms of which are summarised under the section headed “Statutory and General Information – 8. Pre-IPO Share Option Scheme” in Appendix V to this prospectus
“Pre-IPO Share Options”	the share options granted under the Pre-IPO Share Option Scheme
“Price Determination Date”	the date, expected to be on or around 15 September 2017 but no later than 22 September 2017, on which the Offer Price is to be fixed by agreement among our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) for the purposes of the Global Offering
“provinces”	include provinces, autonomous regions and municipalities under the direct administration of the central government of the PRC
“PTC”	Precision Tsugami (China) Corporation (津上精密機床(浙江)有限公司), a company with limited liability established under the laws of PRC on 11 September 2003, and an indirect wholly-owned subsidiary of our Company
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Relevant Manufacturers”	our direct customers and/or their related parties, which, to our best knowledge, were suppliers of the Electronics Company during the Track Record Period, all of which are Independent Third Parties
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganisation”	the reorganisation arrangements undergone by our Group in preparation for the Listing, details of which are set out in the section headed “History, Reorganisation and Corporate Structure – Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate given to our Directors relating to the repurchase of Shares, as further described in the section headed “Statutory and General Information – 1. Further information about our Group – Written resolutions of the sole Shareholder of our Company passed on 4 September 2017” in Appendix V to this prospectus
“Sale Shares”	the 30,000,000 Shares to be offered by the Selling Shareholder for sale at the Offer Price under the International Offering
“Selling Shareholder”	Tsugami Japan, being the Controlling Shareholder which offers 30,000,000 Shares for sale in the International Offering
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of our Company
“Shareholder(s)”	holder(s) of our Share(s)
“Shinagawa Precision”	Shinagawa Precision Machinery (Zhejiang) Co., Limited* (浙江品川精密機械有限公司), a company with limited liability established under the laws of the PRC on 24 November 2010, and an indirect wholly-owned subsidiary of our Company
“Sole Global Coordinator”	BOCI Asia Limited, being the sole global coordinator of the Global Offering

DEFINITIONS

“Sole Sponsor”	Halcyon Capital Limited, a licensed corporation under the SFO permitted to carry out Type 6 (advising on corporate finance) regulated activity (as defined under the SFO), being the sole sponsor to the Global Offering
“sq. m.”	square metres
“Stabilising Manager”	BOCI Asia Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilising Manager (or its affiliates acting on its behalf) and Tsugami Japan on or around the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Technology”	technical information and related intellectual property rights of Tsugami Japan for manufacturing certain types of our CNC high precision machine tools and to provide aftersales services in connection with these products
“Technology Licence Agreement”	the technology licence agreement entered into between Tsugami Japan and our Company dated 4 September 2017, details of which are set out in the section headed “Connected Transactions – Non-exempt continuing connected transactions – Licencing of the Trademarks and the Technology from Tsugami Japan” in this prospectus
“Third-party Components”	parts and components which, to the best knowledge of our Directors, are manufactured by third-party suppliers and procured from Tsugami Japan, excluding CNC system panels
“Track Record Period”	the three financial years ended 31 March 2015, 2016 and 2017

DEFINITIONS

“Trademark(s)”	the trademarks licensed by Tsugami Japan to us from time to time, and for the purpose of the Technology Licence Agreement, refer to the registered trademarks licensed to our Company set out in the section headed “Statutory and General Information – 5. Further information about our business – B. Our intellectual property rights – (a) Trademarks” in Appendix V to this prospectus
“TSUGAMI brand”	Tsugami brand denoted by the trademark TSUGAMI
“Tsugami Consultants”	Tsugami China Consultants Co., Limited* (平湖津上諮詢有限公司), a company with limited liability established under the laws of the PRC on 18 June 2012 and an indirect wholly-owned subsidiary of our Company
“Tsugami HK”	Precision Tsugami (Hong Kong) Limited (津上精密機床(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on 24 September 2013 and a direct wholly-owned subsidiary of our Company
“Tsugami Japan”	Tsugami Corporation (株式会社ツガミ), our Controlling Shareholder, a Japanese company incorporated in March 1937 and listed on the Tokyo Stock Exchange
“Tsugami Japan Components”	parts and components which, to the best knowledge of our Directors, are manufactured by Tsugami Japan
“Tsugami Japan Group”	Tsugami Japan and its subsidiaries (other than our Group)
“TYO”	Tokyo Stock Exchange
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States”, “US” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollars”, “USD” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

DEFINITIONS

“WFOE”	wholly foreign-owned enterprise
“WHITE Application Form(s)”	the application form(s) to be completed in accordance with the instructions in section headed “How to Apply for Hong Kong Offer Shares – 3. Applying for Hong Kong Offer Shares – Which application channel to use” in this prospectus
“YELLOW Application Form(s)”	the application form(s) to be completed in accordance with the instructions in section headed “How to Apply for Hong Kong Offer Shares – 3. Applying for Hong Kong Offer Shares – Which application channel to use” in this prospectus
“%”	per cent

All dates and times refer to Hong Kong dates and time.

Unless otherwise specified, certain amounts denominated in HK\$ have been translated, for the purpose of illustration only, into RMB or JPY or US\$, and vice versa, in this prospectus at the rates of RMB1.00 to HK\$1.130 or JPY16.338, JPY100.00 to HK\$6.916 and US\$1.00 to HK\$7.766. No representation is made that any amounts in RMB, HK\$, JPY and US\$ can be or could have been at the relevant date converted at the above rate or any other rates or at all.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be as arithmetic aggregation of the figures receding them.

If there is any inconsistency between the Chinese or Japanese names of entities or enterprises established in China or Japan and their English translations, the Chinese or Japanese names shall prevail. The English translations of company names in Chinese, Japanese or another language which are marked with “” and the Chinese or Japanese translation of company names in English which are marked with “*” are for identification purposes only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“CNC”	the abbreviation for “computerised numerical control”
“CNC rate”	the proportion of the CNC high precision machine tools among the total machine tools sold
“ERP”	enterprise resource planning, systems that integrate internal and external management information across an entire organisation, embracing finance and accounting, manufacturing, sales and service and customer relationship management, and automate these activities with an integrated software application
“ISO”	the International Organisation for Standardisation, an independent non-governmental organisation based in Geneva, Switzerland, which develops international standards relating to specifications for products, services and systems to ensure quality, safety and efficiency
“precision automatic lathe”	a machine tool operable under CNC automation which rotates the work piece on its axis to perform various operations such as cutting, sanding, knurling, drilling, or deformation, facing, turning, with tools that are applied to the work piece to create an object which has symmetry about an axis of rotation
“precision grinding machine”	a machine corresponds to wide grinding processing from standalone machine to full automatic grind system
“precision machining centre”	a machining center which removes materials from rotating tools while the work piece remains relatively still
“precision thread and form rolling machine”	a machine designed to cold-work external screw thread on solid cylindrical blanks
“precision turret machine”	a computer-controlled indexable tool-holder machine which allows multiple cutting operations to be performed automatically and sequentially, with no need for the operator to perform setup tasks in between

FORWARD-LOOKING STATEMENTS

In this prospectus, statements of or references to our intentions or that of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

This prospectus contains forward-looking statements that state our intentions, beliefs, expectations or predictions for the future that are, by their nature, subject to significant known or unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our operations and business prospects;
- future developments, trends and conditions in the industries and markets in which we operate;
- our ability to successfully implement our business plans, future strategies, objectives and goals;
- the regulatory environment and industry outlook in general for the industries discussed herein;
- general political, economic, legal and social conditions in the PRC and globally;
- our dividend payout;
- our future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the competitive markets for our products and the actions and developments of our competitors;
- volumes, operations, margins, risk management and exchange rates;
- exchange rates and interest rate fluctuations and developing legal system, in each case pertaining to the PRC and the industries and markets in which we operate;
- financial condition and performance;
- regulations and restrictions;

FORWARD-LOOKING STATEMENTS

- macroeconomic measures taken by the PRC government to manage economic growth; and
- other factors beyond our control.

The words “aim”, “anticipate”, “believe”, “consider”, “could”, “predict”, “estimate”, “potential”, “continue”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would”, “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks, uncertainties and assumptions that could cause actual results to differ materially from those suggested by the forward-looking statements. Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our business, financial condition and results of operations may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. These forward-looking statements should be considered in light of various important factors, including those set out in the section headed “Risk Factors” in this prospectus. You should not place undue reliance on any forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised. We do not have and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise subject to the requirements of applicable laws, rules and regulations. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. Our Directors confirm that these forward-looking statements are made after due and careful consideration and on bases and assumptions that are fair and reasonable. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

The Global Offering and the investment in our Shares involve certain risks. You should carefully consider all the information set out in this prospectus, including, but not limited to, the risks and uncertainties described in the following risk factors when considering making an investment in our Shares being offered in the Global Offering. Our operations involve certain risks, many of which are beyond our control. You should also pay particular attention to the fact that we are a company incorporated in the Cayman Islands, and our business is mainly located in the PRC and we are governed by a legal and regulatory environment that may differ from that which prevails in other countries and jurisdictions. Our business, results of operation and financial condition could be adversely affected by any of the risks and uncertainties described below. The trading price of our Shares may decline due to any of these risks and uncertainties and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

During the Track Record Period, the Tsugami Japan Group was our largest customer and Tsugami Japan was our largest supplier and we had also licensed the Trademarks and the Technology from Tsugami Japan, and failure to maintain such business arrangements may materially and adversely affect our business, results of operations and financial condition

During the Track Record Period, we had certain business arrangements with the Tsugami Japan Group. The Tsugami Japan Group was our largest customer and Tsugami Japan was our largest supplier during the Track Record Period. In view of our mass production capabilities at our Pinghu Production Plants, the Tsugami Japan Group procures a portion of our CNC high precision machine tools to sell to its customers based in the Other Markets, with or without further customisations. We also procure certain parts and components from Tsugami Japan, and license the Trademarks and the Technology from Tsugami Japan for the manufacture and provision of certain aftersales services for our CNC high precision machine tools. Our Directors are of the view that all of these business arrangements were entered into on normal commercial terms or better to our Company in the ordinary and usual course of business of our Group and are fair and reasonable and in the best interests of our Group and our Shareholders as a whole, and do not undermine our ability to operate our business independently from the Tsugami Japan Group. For the three years ended 31 March 2015, 2016 and 2017, (i) our revenue derived from sales to the Tsugami Japan Group amounted to approximately RMB559.2 million, RMB584.2 million and RMB548.3 million, respectively, representing approximately 27.2%, 43.0% and 33.5% of our total revenue for the same periods, respectively; (ii) our purchase costs of parts and components from Tsugami Japan amounted to approximately RMB508.7 million, RMB244.1 million and RMB319.8 million, respectively, representing approximately 32.9%, 29.1% and 28.2% of our total purchases, respectively; and (iii) our Trademark and Technology licence fees amounted to, in aggregate, approximately RMB93.7 million, RMB58.8 million and RMB74.1 million, respectively, representing approximately 4.6%, 4.3% and 4.5% of our total revenue, respectively. For further details of our business arrangements with the Tsugami Japan Group, please refer to the sections headed “Connected Transactions” and “Relationship with Controlling Shareholder” in this prospectus.

RISK FACTORS

After Listing, we will continue such business arrangements with the Tsugami Japan Group. However, there is no assurance that our business arrangements with the Tsugami Japan Group will continue under the same or similar terms or at all. In particular, given a significant portion of our revenue was derived from the Tsugami Japan Group during the Track Record Period, if our business relationship with the Tsugami Japan Group deteriorates or even terminates, our business, results of operations and financial condition may be materially and adversely affected. Further, Tsugami Japan possesses advanced technology and/or technical information which are essential for manufacturing various types of our CNC high precision machine tools. In any event that Tsugami Japan ceases to license the Technology to us and/or restrict us from using the TSUGAMI brand and/or other Trademarks, we cannot assure you that we can develop any such technology and/or technical information by ourselves or find comparable and reputable technology providers for developing and/or licensing any such technology and/or technical information, brands or trademarks to us at reasonable costs and in a timely manner. If that happens, our business, results of operations and financial condition may be materially and adversely affected.

We depend on a small number of major customers, and loss of any one or more of these customers may materially and adversely affect our business, results of operations and financial condition

Our revenue derived from our top five customers accounted for approximately 56.7%, 60.4% and 56.5% of our total revenue for the three years ended 31 March 2015, 2016 and 2017, respectively. We expect that we will continue to derive a significant portion of our revenue from our major customers.

We generally supply our CNC high precision machine tools to our customers on an order-by-order basis. We cannot assure you that our existing major customers will continue to place orders with us at historical levels, nor can we assure that we are able to secure comparable levels of business from our other customers to offset any loss of revenue from losing any one or more of these major customers. Further, we cannot assure you that we will be able to successfully secure new customers to capture the potential growth of the PRC CNC high precision machine tool industry and broaden our customer base. Therefore, if we lose any of our major customers for any reason, including our ceasing to be a qualified supplier of our major customers, our relationship with one or more of our major customers deteriorating, or a major customer's own business declines and substantially reduces its purchases from us, our business, results of operations and financial condition will be materially and adversely affected.

RISK FACTORS

If the TSUGAMI brand is harmed, our business may be materially and adversely affected

Originated from Tsugami Japan, we sell and market our CNC high precision machine tools under the TSUGAMI brand. Consumers' recognition of the TSUGAMI brand is critical to our continued success and growth. Nevertheless, the TSUGAMI brand may be harmed by product defects, ineffective customer services, product liability claims, consumer complaints or negative publicity or media reports during our business course in the PRC and Taiwan or during the business course of the Tsugami Japan Group in the Other Markets, which may materially and adversely affect the overall level of consumers' recognition of, and trust in, us and our CNC high precision machine tools. Furthermore, as we are only licensing the TSUGAMI brand and other Trademarks from Tsugami Japan, any failure to protect the TSUGAMI brand and other Trademarks by the Tsugami Japan Group may reduce the value of goodwill associated with the brand and materially and adversely affect our business, results of operations and financial condition.

Demand for our CNC high precision machine tools depends on, among other things, the trends and developments in the downstream industries, such as the industries of IT and electronic products and automobiles, and the condition of the global economy

We primarily sell our CNC high precision machine tools in the PRC and Taiwan via our distributors to end customers engaged in various industries, including IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery. As such, demand for our CNC high precision machine tools depends, to a large extent, on the future growth and development of the downstream industries, in particular, the industries of IT and electronic products and automobile. According to Frost & Sullivan, sales of CNC high precision machine tools for end users engaged in the automobile industry and consumer electronic product industry contributed approximately 33.1% and 24.0% of the total revenue of the PRC CNC high precision machine tools market in 2016, respectively. Therefore, if future demands for automobile and consumer electronic products decrease for any reason, we may experience a corresponding decrease in demand for our CNC high precision machine tools, which in turn, may materially and adversely affect our business, results of operations and financial condition.

Other than selling our CNC high precision machine tools in the PRC and Taiwan, in view of our mass production capabilities at our Pinghu Production Plants, the Tsugami Japan Group also procures our CNC high precision machine tools to sell to its customers based in the Other Markets, with or without further customisations. In this connection, the demand for our CNC high precision machine tools from the customers of the Tsugami Japan Group depends, among other things, on the economic condition in the Other Markets. A drop in demand for our CNC high precision machine tools in the Other Markets will lead to a corresponding drop in demand for our CNC high precision machine tools from the Tsugami Japan Group, which in turn, will materially and adversely affect our business, results of operations and financial condition.

RISK FACTORS

Fluctuation in foreign exchange rates may materially and adversely affect our business, results of operations and financial condition

During the Track Record Period, a substantial portion of our overseas sales and procurement was denominated and settled in JPY. We realized losses on foreign exchange for the years ended 31 March 2016 and 2017 of approximately RMB16.0 million and RMB2.1 million, respectively. Such foreign exchange losses were primarily due to the effect of the general appreciation of JPY and USD against Renminbi on our procurement from Tsugami Japan denominated in JPY and our repayment of short-term bank borrowings denominated in USD. We cannot assure you that we will not continue to suffer losses on foreign exchange in the future. For further details of how foreign exchange rates affect our business, results of operations and financial condition, please refer to the section headed “Financial Information – Factors affecting our results of operations – Foreign exchange” and “Financial Information – Quantitative and qualitative disclosures about market risks – Foreign currency risk” in this prospectus.

Our Controlling Shareholder has substantial influence over us and our Controlling Shareholder’s interest may not be aligned with the interests of our other Shareholders

Immediately after the Listing, Tsugami Japan will own in total 75.0% of our issued share capital (taking into no account of the Shares which may be issued pursuant to the Over-allotment Option or the Pre-IPO Share Options) and thus will become our Controlling Shareholder. Being our Controlling Shareholder, Tsugami Japan can exert significant influence over our affairs, and will be able to influence the outcome of any Shareholders’ resolutions, irrespective of how other Shareholders may vote. The interests of our Controlling Shareholder may not necessarily be aligned with those of our other Shareholders. Our Controlling Shareholder may cause us to take actions that are not in the interests of us or our other Shareholders. In the event that the interests of our Controlling Shareholder conflict with those of our other Shareholders, or if our Controlling Shareholder chooses to cause us to pursue objectives that would conflict with the interests of our other Shareholders, such other Shareholders could be left in a disadvantageous position by such actions caused by our Controlling Shareholder.

Substantial portion of our CNC high precision machine tools are sold to third-party distributors in the PRC and failure to maintain relationship with our existing distributors, attract new distributors or effectively manage our distributors may materially and adversely affect our business, results of operations and financial condition

During the Track Record Period, we primarily sold our CNC high precision machine tools via our distributors in the PRC. For the three years ended 31 March 2015, 2016 and 2017, sales to our distributors in the PRC accounted for approximately 41.5%, 51.8% and 60.8% of our revenue, respectively. As at 31 March 2015, 2016 and 2017, we had 124, 159 and 193 distributors in the PRC. For the years ended 31 March 2015, 2016 and 2017, we appointed 47, 46 and 50 new distributors and terminated 15, 11 and 16 distributors, respectively.

RISK FACTORS

We generally enter into agreements with majority of our distributors for each sales order. There is no assurance that our existing distributors will continue to place orders with us at historical levels, or at all. Further, we generally do not fix any annual sales targets or minimum purchase orders for our distributors. If any of our major distributors substantially reduces its purchases from us or ceases to do business with us, our sales may decrease substantially and our business, results of operations and financial condition may be materially and adversely affected. Further, our distributors may not be able to market our CNC high precision machine tools successfully or maintain their competitiveness, or choose to distribute CNC high precision machine tools of our competitors. If any of them terminates business relationship with us, we may not be able to replace it with a new distributor in a timely manner, or the replaced distributor may not be able to manage end customers in its regional area effectively. This will materially and adversely affect our access to and relationship with end customers and therefore our business, results of operations and financial condition.

In addition, we monitor our distributors in accordance with our distributor management guidelines to avoid cannibalisation and competition among our distributors. However, we cannot assure you that our distributors will follow our distributor management guidelines and that we can successfully implement, monitor the performance and/or maintain effective control of our distributors in accordance with our distributor management guidelines. Further, we generally supply our CNC high precision machine tools on an order-by-order basis to our distributors and do not generally accept return or exchange of obsolete machine tools. However, we cannot guarantee that there would be no chance of channel stuffing by our distributors. In the event that there are non-compliance incidents by our distributors and they fail to rectify their wrongdoings within a certain period of time, we are entitled to terminate the business relationship with such distributors. As such, such distributor's sales of our certain CNC high precision machine tools to end customers may be negatively impacted. Moreover, our corporate image may be negatively affected, resulting in loss of end customers and a decline in sales. Any such loss of end customers and decline in sales may materially and adversely affect our business, results of operations and financial condition.

Sales to certain of our existing customers may be subject to fluctuations, which may have a material and adverse effect on our business, results of operations and financial condition

During the Track Record Period, we provided certain CNC high precision machine tools to the Relevant Manufacturers. For the years ended 31 March 2015, 2016 and 2017, our revenue derived from the Relevant Manufacturers amounted to approximately RMB588.1 million, RMB13.8 million and RMB4.7 million, respectively, accounted for approximately 28.6%, 1.0% and 0.3% of our total revenue for the same period, respectively. Our relatively higher revenue from the Relevant Manufacturers for the year ended 31 March 2015 was primarily due to us receiving a large amount of sales orders from them for the same period, which to the best knowledge of our Directors, were ahead of the release of certain major new product of the Electronics Company. As a result, any comparisons of our sales and operating results between different financial years or periods are not necessarily meaningful and cannot be relied on as indicators of our performance. For more details of our sales to the Relevant Manufacturers, please refer to the sections headed "Business – Sales – Our customers – PRC sales – Direct sale customers" and "Financial Information" in this prospectus.

RISK FACTORS

Although we have been putting efforts in maintaining business relationship with and exploring additional sales opportunities from our existing customers and at the same time, developing new customers, our business, results of operations and financial condition may be materially and adversely affected if there is any significant fluctuation of sales orders from the Relevant Manufacturers. Further, our Directors believe that demand of our CNC high precision machine tools by the Relevant Manufacturers, to a large extent, depends on the future growth of and trends and developments in the electronic product market, which is characterised by rapid technology change, evolving industry standards and changing customers' preferences. Therefore, any economic and market factors or events affecting the electronic product market and in turn, the Electronics Company and the Relevant Manufacturers, may have a material and adverse effect on our business, results of operations and financial condition.

We may experience fluctuation in gross profit and gross profit margin for our sales of CNC high precision machine tools

We experienced fluctuation in gross profit and gross profit margin from the sales of our CNC high precision machine tools during the Track Record Period. For instance, our gross profit generated from the sales of our precision automatic lathes and precision thread and form rolling machines amounted to approximately RMB329.9 million, RMB143.4 million and RMB185.6 million, and RMB4.1 million, RMB2.6 million and RMB1.4 million for the three years ended 31 March 2015, 2016 and 2017, respectively, while the gross profit margin of such machine tools was approximately 23.1%, 17.9% and 17.7%, and 39.0%, 25.3% and 12.2% for the same period, respectively. For more details of our gross profit and gross profit margin by product category and by customer type during the Track Record Period, please refer to the section headed "Financial Information – Principal income statement components" and "– Period to period comparison of results of operations" in this prospectus.

Our gross profit and gross profit margin have and will continue to be affected by various factors, including but not limited to, the general economic condition in the PRC, future development and trends of the PRC CNC high precision machine tool industry, our operations and business prospects, needs and requirement of our customers and/or end customers on specifications and/or customisations, and our purchase cost of parts and components. There can be no assurance that we could achieve stable growth in our gross profit and gross profit margin in the future.

We may be unable to effectively manage the supply and quality of our principal parts and components, and any price fluctuations of the principal parts and components used in our production may increase our production costs, which may materially and adversely affect our profit margin and results of operations

The principal parts and components we use in the manufacture of our CNC high precision machine tools are CNC system panels, spindles, lathe beds, rails, ball screws and other processed metal parts. For the three years ended 31 March 2015, 2016 and 2017, purchases from our top five suppliers accounted for approximately 47.1%, 41.6% and 47.8% of our total purchases for the same periods, respectively.

RISK FACTORS

According to Frost & Sullivan, the revenue and sales volume of CNC high precision machine tool industry in the PRC are expected to grow at CAGR of approximately 5.7% and 6.9%, respectively, from 2016 to 2021. As such, we believe that our reliance on our key suppliers to supply quality parts and components for manufacturing our CNC high precision machine tools will also increase. If any of our key suppliers decides not to accept our future purchase orders on the same or similar terms, or at all, or decides to substantially reduce their volume of supply to us or terminate their business relationship with us, we may need to find a proper replacement in a timely manner, failure of which may result in delay our production schedules or default on our agreements with our customers. In addition, if any of our key suppliers fails to provide the required amount of parts and components meeting our quality standards, we may need to source parts and components from other suppliers, which may result in additional costs and delay in the delivery of our products to our customers and our business, results of operations and financial condition may be materially and adversely affected.

Moreover, any sudden or significant increases in the prices of our principal parts and components for our production may materially and adversely affect our profit margin and results of operations. There is no assurance that the prices of our principal parts and components will remain stable in the future, or that any price increases will not lead to unexpected and potentially significant increases in our production costs. We also cannot assure that we will be able to transfer the increase in production costs to our customers without affecting our sales volume in the future. If we are unable to increase the prices of our CNC high precision machine tools to set-off any increases in our costs of parts and components in a timely manner, our profit margin and results of operations may be materially and adversely affected.

The unavailability of government grants may affect our business, results of operations and financial condition

We have received government grants in the form of reduced tax rates, exemptions from certain taxes and other measures. For the three years ended 31 March 2015, 2016 and 2017, we received government grants of approximately RMB2.0 million, RMB10.8 million and RMB3.1 million, respectively. For more details in relation to the government grants we received, please refer to the section headed “Financial Information – Principal income statement components – Other income and gains” in this prospectus.

It is in the PRC government’s sole discretion to decide when, under what conditions or whether the government grants should be granted to us at all. We cannot assure you that we will continue to receive government grants or the PRC government will not impose new conditions for receiving the government grants in the future. If we are unable to obtain or maintain the government grants or any other favourable regulatory treatments in the future, our business, results of operations and financial condition may be affected.

RISK FACTORS

We are subject to technological changes in the industry and may not be able to successfully introduce new CNC high precision machine tools

The CNC high precision machine tool industry is subject to technological advances. We rely on our technical team to keep track with the latest technology and market trend in the CNC high precision machine tool industry and to develop CNC high precision machine tools with customisations and/or specifications. We currently do not focus on the research and development of new models of CNC high precision machine tools, and are licensing the Technology from Tsugami Japan. Our expenses in relation to our customisation and development amounted to approximately RMB10.3 million, RMB8.1 million and RMB4.7 million for the three years ended 31 March 2015, 2016 and 2017, respectively. We believe that our future success will largely depend on our ability in anticipating the technological changes and market trends and keep pace with the technological advances in a cost-effective manner and timely basis. However, we may encounter practical difficulties in commercialising the results of our customisation and development initiatives and launching CNC high precision machine tools as originally intended, or our customisation and development expenditures may not lead to the benefits we expected. If we fail to adequately respond to the technological developments or was unable to secure licencing of advanced technology from Tsugami Japan or other third parties to effectively improve our existing types or models or develop new models of CNC high precision machine tools according to the market trends, our business, results of operations and financial condition may be materially and adversely affected.

We may encounter unexpected difficulties on expanding our business in the future

We plan to continue to expand our business to maintain and strengthen our market position in the CNC high precision machine tool industry in the PRC. In doing so, we plan to further expand our sales network and increase our market penetration in the PRC, including establishing two flagship showrooms to showcase our CNC high precision machine tools in Tianjin and Wuhan and five customer services centres to facilitate the provision of our aftersales customer services. We will also continue to enhance our customisation and development capabilities to improve and develop new production technology and techniques and manufacture certain principal parts and components by ourselves with an aim to lower our production costs and increase our gross margin. However, any business expansion will require additional managerial, technical, financial, production, operational and other resources, systematic internal control systems and the employment of additional skilled staff. There is no assurance that we will be able to implement our business expansion plans successfully and manage our business operations effectively in the future and failure to do so will materially and adversely affect our business, results of operation and financial condition.

RISK FACTORS

Further expansion of our Pinghu Production Plants may not be as successful as we have planned or such expansion may result in over-capacity or significant increase in depreciation and amortisation, which may materially and adversely affect our business, results of operations and financial condition

In order to cater for the future development of our Group to meet the demand and requirements of our customers and end customers in the PRC and Taiwan and also the customers of the Tsugami Japan Group based in the Other Markets, we plan to continue to upgrade and expand our production facilities and capacities at our Pinghu Production Plants. We plan to rebuild and renovate part of our production plant four, which is currently located on a new piece of land that we purchased in May 2014, to particularly enhance our production process of assembling. We also plan to purchase and replace production machinery and equipment for our Pinghu Production Plants. The aggregate capital expenditure for the above production expansion are estimated to be a total of approximately RMB52.9 million, which will be funded by the net proceeds from the Global Offering. Please also refer to sections headed “Business – Production – Future expansion plan”, “Financial Information – Capital expenditures – Planned capital expenditures” and “Future Plans and Use of Proceeds” in this prospectus for more details.

We have implemented the above expansion plan based on our current and forecast business operation and performance and the overall market environment. However we cannot assure you that our expansion plan will not result in over-capacity due to unforeseeable changes in the market demands, which may materially and adversely affect our business, results of operations and financial condition. Further, our expansion plan may also result in significant increases in depreciation and amortisation expenses arising from certain of our production machinery and equipment, and our revenue and profit may not increase in proportion to our increased production capacity and expansion.

Our CNC high precision machine tools generally have relatively long useful lives which may lead to a relatively long average replacement cycle

We estimate that the general product lifecycle of our CNC high precision machine tools is around 10 years, provided that regular inspections and maintenance of such CNC high precision machine tools are carried out by end customers. Our CNC high precision machine tools may also be adjusted to manufacture a variety of metal work pieces depending on the needs and requirements of the end customers by replacing or adding certain parts and components. As such, the average replacement cycle for our CNC high precision machine tools is relatively long. Nevertheless, the product lifecycle of our CNC high precision machine tools largely depends on the market demand for certain models of CNC high precision machine tools and the specific business needs and requirements of end customers engaged in various downstream industries. While we may from time to time derive revenue from our customers and end customers by providing aftersales services for our CNC high precision machine tools, we cannot assure you that we can obtain new sales orders from our existing customers, or engage new customers or develop new CNC high precision machine tool models that fulfil the evolving technical and production requirements of our existing and new customers. In such event, our business, results of operations and financial condition may be materially and adversely affected.

RISK FACTORS

We manufacture all our CNC high precision machine tools in a single location at our Pinghu Production Plants, and any material disruptions of our operation may materially and adversely affect our business, results of operations and financial condition

Our operations are subject to uncertainties and contingencies beyond our control that may result in material disruptions in our operations and adversely affect our business. These include industrial accidents, fires, floods, droughts, storms, earthquakes, natural disasters and other catastrophes, equipment failures or other operational problems, strikes or other labour difficulties. During the Track Record Period, we manufactured all our CNC high precision machine tools at our Pinghu Production Plants. If there is any damage to our Pinghu Production Plants due to the above incidents, we may not be able to remedy such situations in a timely and proper manner, and our production may be materially and adversely affected. Any breakdowns in or malfunction of any of our production machinery and equipment may cause a material disruption to our operations. Any such disruption to our operations may cause us to reduce or halt our production, prevent us from meeting orders from our customers, adversely affect our business reputation, increase our cost of sales or require us to make unplanned capital expenditures, any one of which may materially and adversely affect our business, results of operations and financial condition.

If we fail to effectively manage our inventories or estimate accurately the demand for our CNC high precision machine tools, we may end up with significant excess inventories which may materially and adversely affect our business, results of operations and financial condition

We typically make our production plans based on our production schedules and sales forecast in a few months time. In order to ensure the sufficiency of our production capacities and timely delivery of products, we generally maintain an inventory level of certain principal parts and components procured from overseas, such as CNC system panels, for around three to six months based on our production plans. As at 31 March 2015, 2016 and 2017, our inventories amounted to approximately RMB720.6 million, RMB508.1 million and RMB479.9 million, respectively, accounted for approximately 75.3%, 69.8% and 47.3% of our total current assets, respectively. For the three years ended 31 March 2015, 2016 and 2017, our average inventory turnover days were approximately 163, 197 and 134 days, respectively. For the details of our average inventory turnover days, please refer to the section headed “Financial Information – Certain items of consolidated statements of financial position – Inventories” in this prospectus.

Although we have employed a centrally-administered ERP system which enables us to track and manage our inventories, we cannot assure you that such ERP system will be implemented effectively. In addition, we cannot assure you that we will not experience any slow movement of inventories, which may result from our reduced sales of CNC high precision machine tools or incorrect estimation of the market demand for our CNC high precision machine tools. Considering that we have a relatively significant balance of inventories, if we fail to manage our inventories effectively or are unable to dispose of excess inventories, we may face a heightened risk of inventory obsolescence and/or significant inventory write-downs, which may impose pressure on our operating cash flow, and materially and adversely affect our business, results of operations and financial condition.

RISK FACTORS

We are exposed to significant balances of trade and bills receivables

Our balance of trade and bills receivables as at 31 March 2015, 2016 and 2017 amounted to approximately RMB125.6 million, RMB114.1 million and RMB387.3 million, respectively, accounted for approximately 13.1%, 15.7% and 38.2% of our total current assets, respectively. The average turnover days of our trade and bills receivables also increased from approximately 26 days for the year ended 31 March 2015 to approximately 32 days for the year ended 31 March 2016 and further to approximately 56 days for the year ended 31 March 2017. Please refer to the section headed “Financial Information – Certain items of consolidated statements of financial position – Trade and bills receivables” for more details of our increased average turnover days of trade and bills receivables.

Taking into account that we have been expanding in the PRC and may increase our sales to certain customers in the PRC that have been granted with credit period or settle their payment with bank acceptance bills, should the credit worthiness of our customers deteriorate or should a number of our customers fail to settle their trade and bills receivables in full for any reason, we may incur impairment losses. There is no assurance that we will be able to fully recover our trade and bills receivables from our customers or that our trade and bills receivables will be settled in a timely manner. In the event that the settlement from our customers are not made in full on a timely manner, our profitability, cash flow and financial condition may be materially and adversely affected.

We may be subject to liability in connection with industrial accidents at our production facilities

Our manufacturing involves the operation of heavy production machinery and equipment that could result in industrial accidents which may cause injuries or deaths. As far as our Directors are aware after making all reasonable enquiries, there was no legal claim made against us arising from any industrial accidents during the Track Record Period and up to the Latest Practicable Date. However, we cannot assure you that industrial accidents, whether due to malfunction of machinery or any other reasons, will not occur in the future at our production facilities. If such incident happens, we may be liable for loss of life, medical expenses and medical leave payment. In addition, we may experience interruptions in our operations and may be required to change the manner in which we operate as a result of governmental investigations or the implementation of safety measures as a result of such industrial accidents. Any of the foregoing may materially and adversely affect our business, results of operations and financial condition.

Japanese competition laws and regulations may restrict the validity of the non-competition undertakings given by our Controlling Shareholder

The Act on Prohibition of Private Monopolisation and Maintenance of Fair Trade (Act No. 54 of 1947) (the “**Japanese Antimonopoly Act**”) prohibits unreasonable restraint of trade. According to our Japanese Legal Advisers, there is a possibility that certain non-competition undertakings given by our Controlling Shareholder pursuant to the Deed of Non-Competition

RISK FACTORS

may be interpreted and considered as a violation of the Japanese Antimonopoly Act. As advised by our Japanese Legal Advisers, if our Controlling Shareholder ceases to hold a majority of our voting rights, the non-competition undertakings given by our Controlling Shareholder may require to be amended to the extent necessary to comply with the applicable laws and regulations and we will issue announcement as and when necessary in compliance with the Listing Rules. In addition, the Deed of Non-competition will also lapse automatically if Tsugami Japan ceases to hold, whether directly or indirectly, 30.0% of our Shares or our Shares cease to be listed on the Stock Exchange. We cannot assure you that the non-competition undertakings given by our Controlling Shareholder pursuant to the Deed of Non-competition will be enforced in full or at all. As such, in the event that the business of our Controlling Shareholder competes with our business, there may not be sufficient remedies available to us under the Deed of Non-competition or at all and our business, results of operations and financial condition may be materially and adversely affected. For more details of the Deed of Non-competition, please refer to the section headed “Relationship with Controlling Shareholder – Non-competition undertakings”.

Our products may be subject to counterfeiting, imitation, and/or infringement by third parties

We rely on intellectual property laws in China and other jurisdictions to protect our trademark, technological know-how, registered patents and software copyrights. However, we cannot give assurance that counterfeiting or imitation of our CNC high precision machine tools will not occur in the future or, if it does occur, that we will be able to detect or address the problem in a timely and effective manner.

Any occurrence of counterfeiting or imitation of our CNC high precision machine tools or other infringement of our intellectual property rights could negatively affect the TSUGAMI brand and our reputation or lead to loss of customer confidence in our products, and, as a consequence, adversely affect our results of operations. Any litigation to prosecute infringements upon our intellectual property rights and products will be expensive and will divert our management’s attention as well as other resources away from our business.

We are not required under the PRC law to maintain, nor do we currently maintain, any insurance coverage against intellectual property litigation costs, and we would have to bear all costs arising from intellectual property litigation, whether it is raised by us or it is against us, to the extent we are unable to recover them from the relevant parties. As a result, any such litigation could have a material and adverse effect on our business, results of operations and financial condition.

Lack of business insurance coverage may incur substantial costs for us

We cannot give assurance that our current insurance policies are sufficient to cover all the risk associated with our operations. To the best knowledge of our Directors, insurance companies in the PRC offer limited business insurance products, and do not offer business liability insurance. As a result, we do not have any business liability insurance coverage for our business. Any business disruption, litigation or natural disaster may strain management resources, affect our reputation and/or require us to spend significant sums on legal costs.

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We are dependent on key management and failure to attract and retain key personnel and a skilled labour force may materially and adversely affect our business, results of operations and financial condition

Our success depends heavily on our ability to attract, retain and motivate key management team members, including our executive Directors, Dr. Tang Donglei, Mr. Yoshimasa Hashimoto and Mr. Tatsushi Hidano and certain key senior management team members, such as Dr. Li Zequn and Mr. Li Junying, all of whom possess solid technical know-how and/or extensive managerial experience in the CNC high precision machine tool industry. For more details of our Directors and senior management, please refer to the section headed “Directors, Senior Management and Employees” in this prospectus. The continued successful management of our business is also, to a considerable extent, dependent on our senior management members and our key technical team who play vital roles in our operations. If one or more of these personnel are unable or unwilling to continue in their present positions, we may not be able to recruit suitable and qualified new employees to replace them, which may severely disrupt our business and affect our results of operations and future prospects.

We may fail to renew our certification or qualification as a supplier of our customers

Our customers, which might be authorised manufacturers for other companies, may have evaluation, certification or qualification requirements and verification procedures in place to select qualified suppliers. These customers may conduct checks from time to time on the CNC high precision machine tools provided by us. There is no assurance that we could always obtain such certification or qualification to build or maintain our relationship with these customers in which event, our business prospect, results of operations, and financial condition may be adversely affected. Even if we can ultimately pass such qualification process, we cannot assure you that such approvals can be obtained in a timely manner. In addition, even if we become an approved supplier of such customers, we cannot assure you that we will receive purchase orders from such customers.

We might not be able to obtain or renew our land use rights and building ownership rights for our business and production facilities

As of the Latest Practicable Date, we held land use rights for seven parcels of land with total site area of approximately 141,921 sq. m. and we owned four production plants with a total gross floor area of approximately 89,417 sq. m. We have obtained the relevant land use rights for such land and building ownership rights for those buildings and land. We cannot assure you that we will be able to renew the title certificates for properties that are critical to our operations as they expire. Furthermore, we cannot assure you that we will be able to obtain all of the necessary certificates and permits or complete the procedures for renovation of our production plant four. Our rights as owner of these properties may be adversely affected as a result of the absence of necessary certificates, permits or procedures, and we may be subject to litigations or other actions taken against us and/or lose the right to continue to operate on these properties, which may, in turn, adversely affect our business, results of operations and financial condition.

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RISKS RELATING TO CNC HIGH PRECISION MACHINE TOOL INDUSTRY IN THE PRC

We face intense competition in our business

We operate in the CNC high precision machine tool industry principally in the PRC, which is led by a small number of domestic major players, with the rest of the market highly fragmented. Participants in this market include both domestic and international machine tool manufacturers that focus on, among other things, research and development capabilities, expertise, reputation, industry recognition and stable client relationship. Furthermore, according to Frost & Sullivan, the competition in the CNC high precision machine tool industry in the PRC is expected to intensify as the major market players will continue to strengthen their respective advantages and resources to increase their market share due to the great potential for growth. In particular, the competition in the eastern China market will continue and more new CNC high precision machine tool manufacturers will focus on the relatively undeveloped market in the western and northern China. Further, the major domestic players in the PRC CNC high precision machine tool industry may also enjoy economies of scale and may set selling prices of their machine tools lower than ours. In the event that we fail to grasp the opportunities arising from these regions in the PRC or compete effectively with our major domestic competitors on pricing, our market share and profit margins may decline and our business, results of operations and financial condition may be materially and adversely affected.

Furthermore, as die casting machines are widely used to manufacture mid to low end electronic products at lower costs than CNC high precision machine tools, some electronic product manufacturers may choose die casting machines over CNC high precision machine tools in order to lower their production costs. If more electronic product manufacturers choose to use die casting machines over CNC high precision machine tools, our business, results of operation and financial condition may also be materially and adversely affected.

We are required to comply with various environmental, health and safety laws that are extensive and the compliance of which may be onerous or expensive

We are subject to applicable national and local laws and regulations with respect to the protection of the environment and the health and safety of employees and the public in the PRC, such as the Environmental Protection Law, The Environment Impact Assessment Law, The Production Safety Law and Product Quality Law. For further details, please refer to the section headed “Regulations” in this prospectus. These laws and regulations govern, among other things, discharges, storage, waste disposal and protection of the health and safety of employees. Our manufacturing processes and products are subject to stringent quality, environmental and occupational safety standards.

If we fail to comply with these laws and regulations or if a more stringent enforcement regime is implemented, we may be exposed to penalties, fines, suspension or revocation of our licenses or permits to conduct business, administrative proceedings and litigation. In light of the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources.

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In addition, as these laws and regulations continue to evolve, we cannot assure you that the PRC government or the governments of other overseas jurisdictions in which we have operations would not impose additional or more onerous laws or regulations, compliance with that may cause us to incur significantly increased costs that we might not be able to pass on to our customers.

As at the Latest Practicable Date, we were not aware of any material adverse changes or developments in environmental, health and safety laws or regulations imposed by relevant governmental authorities. Nevertheless, there is no assurance that there will not be adverse changes or developments in such laws and regulations in the future. If we fail to adapt to these changes, our reputation may be damaged, we may lose or might not be able to renew our licenses and permits or we may be required to pay penalties or fines or take remedial actions, any of which could have a material and adverse effect on our business, results of operations and financial condition.

Our business may be affected by the political tension between the PRC and Japan

Future political development or political turnover in Japan may lead to changes in the Japanese foreign policies that could affect the relationship between Japan and other Asian countries, including the PRC. Japan's relationship with the PRC has at times been strained due to territorial disputes, historical animosities and defence concerns.

As our CNC high precision machine tools are manufactured and sold under the TSUGAMI brand and given our close relationship with Tsugami Japan, any persisting anti-Japanese sentiment could result in a drop in demand for our CNC high precision machine tools in the PRC and our business, results of operations and financial condition may be materially and adversely affected.

RISK RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in economic, political, legal and social developments and conditions in the PRC or policies adopted by the PRC government could materially and adversely affect our business, results of operations and financial condition

Our operating assets are located in the PRC and a significant portion of our sales are derived from our business activities in the PRC. Our business, results of operations and financial condition are subject, to a significant degree, to economic, political, legal and social developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many aspects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange. The PRC economy has traditionally been centrally planned. Since 1978, the PRC government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. However, there is no assurance that the PRC government will continue to pursue economic reforms. The PRC

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government exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. Also, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. In addition, while the PRC economy has experienced significant growth in the last three decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business, results of operations and financial condition may be materially and adversely affected by the PRC government's political, economic and social policies, tax regulations or policies, and regulations affecting the PRC CNC machine tools industry.

Our Company may be subject to the PRC enterprise income tax on our worldwide income under the Enterprise Income Tax Law

Our Company is incorporated under the laws of the Cayman Islands and it indirectly holds interests in certain PRC subsidiaries. Under the Enterprise Income Tax Law (企業所得稅法) and the Implementation Rules of Enterprise Income Tax Law (企業所得稅法實施條例) (collectively called the “**EIT Law**”), both of which were enforced from 1 January 2008 (and as amended from time to time), enterprises established under the laws of or within the territory of PRC, or established under the laws of a foreign country (region), but whose “de facto management body” is located in PRC are treated as resident enterprises for PRC tax purposes. If any entity is treated as a resident enterprise for PRC tax purposes, it will be subject to PRC tax at the uniform tax rate of 25% on its worldwide income. The term “de facto management body” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, SAT promulgated a circular to clarify the certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by PRC enterprises. These criteria include: (1) members of senior management who are in charge of the enterprise's day-to-day operation and who operates from China; (2) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in China; (3) the enterprise's primary assets, accounting books and records, company seals, and minutes of board and shareholders' meetings are located or maintained in China; and (4) 50% or more of voting board members or senior executives of the enterprise habitually reside in China. If our Company is deemed to be a PRC resident enterprise under the EIT Law by the PRC taxation authority, our Company may become subject to the PRC enterprise income tax at a rate of 25% on its worldwide income.

PRC regulations on loans to and direct investment by offshore holding companies in the PRC entities may delay or prevent our Group from making loans or additional capital contributions to our PRC subsidiaries

As offshore holding company(ies) of our PRC subsidiaries, other member(s) of our Group may make loans to the PRC subsidiaries, or may make additional capital contributions to the PRC subsidiaries. When any loans or capital contributions are made by our Company or our

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offshore subsidiary, as an offshore entity, to our PRC subsidiaries, such PRC subsidiaries are subject to the PRC regulations and foreign debt registrations to conduct relevant filing procedures for such loans and capital contributions. For example, loans by offshore holding companies to the PRC subsidiaries to finance their activities cannot exceed the difference between the total amount of investment of the relevant PRC entity and its registered capital (or other amount of foreign debt determined in accordance with applicable regulations) and must be registered with the State Administration of Foreign Exchange of PRC or its local counterpart. Our Group may be subject to compliance with applicable laws and regulations, also determine to finance the PRC subsidiaries by means of capital contributions. These capital contributions must be approved by the Ministry of Commerce of PRC or its local counterpart (if applicable) and such capital contribution has to be filed in MOFCOM. There is no assurance that our Group may obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by our Group to finance the PRC subsidiaries. If our Group fails to receive relevant registrations or approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect our PRC subsidiaries' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments, and in turn, may adversely and materially affect our business, financial condition and results of operations.

Dividend payable by our Company to Shareholders and gain on the sale of the Shares may be subject to the PRC tax

Under the EIT Law, withholding tax at 10.0% will normally apply to dividends payable to non-PRC investors which are derived from sources within PRC. If we are deemed by the PRC tax authorities as a PRC resident enterprise for tax purpose in the future, we may be required to withhold PRC income tax on capital gains realised from sales of our Shares and dividends distributed to Shareholders, as such income may be regarded as income from "sources within China".

In this case, dividend income of our foreign corporate Shareholders which are "non-resident enterprises", i.e. enterprises that do not have an establishment or place of business in PRC, or that have such establishment or place of business in PRC but the relevant income is not effectively connected with such establishment or place of business, are generally subject to PRC enterprise income tax at the rate of 10.0% to the extent such dividend has its source within PRC unless it can be reduced pursuant to the respective tax treaty between PRC and the jurisdiction in which our foreign corporate Shareholders resides which reduces or exempts the relevant tax. Similarly, any gain realised on the transfer of shares by such non-resident investors is subject to a 10.0% PRC enterprise income tax if such gain is regarded as income derived from sources within PRC. The preferential tax rate does not automatically apply. If PRC tax authorities deem us as a PRC resident enterprise, Shareholders who are not PRC tax residents but seeking to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities to seek approval for recognition of eligibility for such benefits. If determined to be ineligible for treaty benefits, such Shareholder may become subject to higher PRC tax rates on dividends of our Shares.

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Since it is uncertain whether our Company will be considered as a PRC resident enterprise, dividend payable to our Shareholders with respect to our Shares, or the gain our Shareholders may realise from the transfer of their Shares, may be treated as income derived from sources within PRC and be subject to the PRC tax. If our Company is required under the EIT Law to withhold the PRC tax on dividend payable to foreign Shareholders, or if our foreign Shareholders are required to pay the PRC tax on the transfer of their Shares, the value of their investment in our Shares may be adversely affected.

Our Company is a holding company and our ability to pay dividend relies on dividend payments from our subsidiaries

Our Company is a holding company and our business is substantially conducted through our operating subsidiaries in PRC. As a result, our ability to pay dividend depends on dividend and other distributions we received from our PRC subsidiaries. If our subsidiaries incur debts or losses, these may impair their ability to pay dividend or other distributions to our Company, which may in turn adversely affect our ability to pay dividend to our Shareholders.

The ability of our subsidiaries to pay any dividend in a given year to our Company depends on the legal and regulatory requirements to which the relevant subsidiary is subject. In general, such subsidiaries may not declare and pay any dividend to our Company, if they do not have any distributable profits. The applicable PRC laws, rules and regulations also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Limitations on the ability of such subsidiaries to remit their after tax profits to our Company in the form of dividend or other distributions may adversely affect our Company's ability to grow, to invest, to pay dividend and otherwise fund, and to conduct our business. There is no assurance that such subsidiaries will generate sufficient earnings and cash flow to pay dividend or otherwise distribute sufficient funds to our Company to enable us to pay dividend to Shareholders.

In addition, restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that members of our Group may enter into in the future may also restrict the ability of such members to pay dividend or make distributions to our Company. These restrictions generally reduce the amount of dividend or other distributions our Company may receive from our subsidiaries, which in turn may impact on our Company's ability to pay dividend to our Shareholders.

Under the EIT Law, we may in the future be deemed as a Chinese residential enterprise by the Chinese tax authorities. In addition, under the EIT Law, certain qualifying dividend payments between Chinese resident enterprises are tax free. However, we are not sure as to whether we will be deemed to be a Chinese resident enterprise, and that our subsidiaries incorporated in PRC or elsewhere do not need to pay dividend withholding income tax.

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Fluctuation of RMB and governmental control over currency conversion may adversely affect our Group's operations and financial results as well as the value of your investment in our Company

The value of RMB is subject to changes in the PRC government's policies and depends, to a large extent, on domestic and international economic and political developments. Since 1994, the conversion of RMB into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on exchange rates published by the People's Bank of China, which are set daily based on the previous business day's interbank foreign exchange market rates in PRC and current exchange rates on the world financial markets. From 1994 to July 2005, the official exchange rate for the conversion of RMB into Hong Kong dollars and U.S. dollars were generally been stable. However, in July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made adjustments, and in the future may make further adjustments, to the exchange rate system.

During the period between 29 December 2006 and 31 December 2015, the value of RMB appreciated against Hong Kong dollars at a CAGR of approximately 2.0% per annum. There has been significant international pressure on the Chinese government to adopt a more flexible currency policy. As of 31 December 2016, the exchange rate of RMB to Hong Kong dollars is approximately 1.12, which represents a depreciation by about 6.7% as compared to that as of 31 December 2015.

Any appreciation of RMB against HK dollars or any other foreign currencies may subject our Group to increased costs as this will reduce the RMB amount we may receive from the conversion of the Hong Kong dollar-denominated proceeds from the Global Offering and future financing for our operations.

On the other hand, any depreciation in the exchange rates of RMB against U.S. dollars or Hong Kong dollars may adversely affect the financial results, and hence value of our Company's dividend payment, which will be funded by RMB but paid in Hong Kong dollars.

Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on us

China's legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference, but may have limited weight as precedents. Many laws and regulations, including those providing for protection or restriction to various forms of foreign investments in PRC, have been promulgated and amended in PRC. Some of these laws, rules and regulations are promulgated in broad principles without clear and simultaneous implementation rules, or at all. Because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may be influenced by momentary policy changes imposed by the PRC government. In addition, the PRC legal system is based in part on government policies

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and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and it may also be difficult to enforce judgments and arbitration awards in PRC. Further, litigation may result in substantial costs and the diversion of resources and management attention, which in turn may have an adverse effect on our business, results of operations and financial condition.

As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. There is no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon our business, operations, financial condition or profitability.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market in Hong Kong for our Shares and their liquidity and market price may be volatile

Prior to the Global Offering, no public market existed for our Shares. The initial Offer Price range for our Shares is the result of negotiations between us and the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. There is no assurance that an active trading market for our Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our Shares will not decline below the Offer Price.

The price and trading volume of our Shares may be volatile, which could result in substantial losses for investors purchasing our Shares in the Global Offering

Factors such as fluctuations in our sales, earnings, cash flows, new investments, acquisitions or alliances, regulatory developments, additions or departures of key personnel, or actions taken by competitors could cause the market price of our Shares or trading volume of our Shares to change substantially and/or unexpectedly. In addition, stock prices could be subject to significant volatility at times. Such volatility has not always been directly related to the performance or condition of the specific companies whose shares are traded. Such volatility, as well as general economic conditions, may adversely affect the prices of our Shares, and as a result investors in our Shares may incur substantial losses.

Future sale or major divestment of Shares by our Controlling Shareholder could materially and adversely affect the prevailing market price of our Shares

Our Shares held by our Controlling Shareholder are subject to certain lock-up periods, the details of which are set out in the section headed “Underwriting” in this prospectus. However, there is no assurance that after the restrictions of the lock-up periods expire, our Controlling Shareholder will not dispose of any Shares. Sale of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

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Purchasers of Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

Potential investors will pay a price per Share that substantially exceeds the per Share value of our tangible assets after subtracting our total liabilities and will therefore experience immediate dilution when potential purchases of the Shares offered in the Global Offering. As a result, if our Company was to distribute its net tangible assets to the Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their Shares.

We may need to raise additional funds in the future to finance further expansion or new developments relating to our existing operations. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

You may face difficulties in protecting your interests under the laws of the Cayman Islands

Our corporate affairs are governed by, among other things, our Memorandum and Articles and the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to our Company under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

Certain facts and statistics derived from government sources contained in this prospectus may not be reliable

We have derived certain facts and other statistics in this prospectus, particularly those relating to the PRC, the China economy and the PRC CNC high precision machine tool industry in which we operate, from information provided by PRC government agencies, industry associations, independent research institutes or other third-party sources that we believe to be reliable. While our Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by us, the Sole Sponsor, the Underwriters or any of our or their respective affiliates or advisers and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled in or outside the PRC. The facts forecasts and other statistics include the facts forecasts and statistics included in the sections headed “Risk Factors”, “Industry Overview” and “Business” in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market

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practices and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to, or place on, such facts or statistics.

Investors should read the entire prospectus carefully and we strongly caution the investors not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering, including, in particular, any projections, valuations or other forward-looking information

Prior or subsequent to the publication of this prospectus, there had been or may be press and media coverage regarding us and the Global Offering. We have not authorised the disclosure of any such information in the press or media, the financial information, financial projections, valuations and other information about us contained in such unauthorised press and media coverage may not truly reflect what is disclosed in this prospectus or the actual circumstances, and we do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us or the Global Offering, or of any assumptions underlying such projections, valuations or other forward-looking information included in or referred to by the press articles or other media. To the extent that any such information appearing in the press or media is inconsistent or in conflict with the information contained in this prospectus or the actual circumstances, we shall not be liable on the same. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and not to rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong.

Our core business and operations are based in the PRC. It would be practically difficult and commercially unnecessary for us to relocate two of our executive Directors to Hong Kong. Therefore, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules on the following conditions:

- (1) We have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that we will comply with the Listing Rules at all times. The two authorised representatives appointed are Dr. Ng Lai Man Carmen, our non-executive Director, and Ms. Wong Wai Yee Ella, our company secretary. Both Dr. Ng Lai Man Carmen and Ms. Wong Wai Yee Ella are ordinarily resident in Hong Kong. Each of our authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the two authorised representatives will be authorised to communicate on our Company behalf with the Stock Exchange.
- (2) Each of our authorised representatives has means to contact all of our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. Our Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time when required. We have also provided the Stock Exchange with contact details of our Directors (including their respective mobile telephone number, office telephone number, email address and fax number (if applicable)). To enhance communication between the Stock Exchange, the authorised representatives and our Directors, (a) each Director has provided his/her mobile telephone number, office telephone number, email address and fax number (if applicable) to our authorised representatives; (b) in the event that a Director expects to travel, he/she will endeavor to provide the telephone number of the place of his/her accommodation to the authorised representatives or maintain an open line of communication via his/her mobile telephone; and (c) each of our Directors and authorised representatives provided their respective mobile telephone numbers, office telephone numbers, email addresses and fax numbers (if applicable) to the Stock Exchange.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (3) We have appointed Halcyon Capital Limited as our compliance adviser, pursuant to Rule 3A.19 of the Listing Rules, which will have access at all times to our authorised representatives, Directors and senior management, and will act as an additional channel of communication between the Stock Exchange and us.
- (4) Meetings between the Stock Exchange and our Directors could be arranged through our authorised representatives or our compliance adviser, or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange as soon as practicable in respect of any change in our authorised representatives and/or our compliance adviser.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, certain continuing connected transactions. We have applied for, and the Stock Exchange has granted us, waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of certain continuing connected transactions as disclosed in the section headed "Connected Transactions – Application for waivers" in this prospectus. Please refer to the section headed "Connected Transactions" in this prospectus for further information of our continuing connected transactions.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Directors' responsibility statement for contents of this prospectus

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

Hong Kong Public Offering and this prospectus

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

If, for any reason, the Offer Price is not agreed among our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed “Underwriting” in this prospectus.

Neither the delivery of this prospectus, any Application Forms nor any offering, subscription or acquisition or delivery made in connection with our Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

The Global Offering

Detail of the structure of the Global Offering, including its conditions, is set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

Procedures for application for the Hong Kong Offer Shares

The application procedures for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Over-allotment Option and stabilisation	Details of the arrangement relating to the Over-allotment Option and stabilisation are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.
Sale of the Sale Shares by the Selling Shareholder	The Selling Shareholder will offer 30,000,000 Sale Shares for sale under and as part of the International Offering.
Lock-up undertakings by our Company and our Controlling Shareholder	See the section headed “Underwriting – The Hong Kong Public Offering – Undertakings under the Hong Kong Underwriting Agreement” in this prospectus.
Restrictions on offer and sale of Shares	<p>No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.</p> <p>Each person subscribing for the Hong Kong Offer Shares will be required to, or be deemed by his acquisition of the Hong Kong Offer Shares to, confirm that he is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and on the relevant Application Forms.</p>

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Application for listing on the
Stock Exchange

Application has been made to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the Capitalisation Issue and the exercise of the Over-allotment Option and the Shares to be issued upon exercise of the outstanding Pre-IPO Share Options).

No part of our share or loan capital of our Company is listed on or dealt in on any other stock exchange and nor is there at present any proposal to do so.

Shares will be eligible for
admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Commencement of dealings in
our Shares

Dealings in our Shares on the Stock Exchange are expected to commence on Monday, 25 September 2017. Our Shares will be traded on the Stock Exchange in board lots of 1,000 Shares each. The stock code of our Shares will be 1651.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Registers and Hong Kong
stamp duty

Our Company's principal register of members will be maintained by our principal registrar, Maples Fund Services (Cayman) Limited, in Cayman Islands and our Company's branch register of members will be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong. Unless otherwise approved by our Directors, all documents evidencing transfer of title to any Shares must be lodged for registration by our Hong Kong Branch Share Registrar and may not be lodged in the Cayman Islands.

Dealings in our Shares registered in our Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

Professional tax advice
recommended

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, our Shares or exercising any rights attaching to our Shares. We emphasise that none of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters, any of our or their respective directors, officers, representatives or affiliates, or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, our Shares or your exercise of any rights attaching to our Shares.

Exchange rate conversion

Unless otherwise specified, certain amounts denominated in HK\$ have been translated, for the purpose of illustration only, into RMB or JPY or US\$, and vice versa, in this prospectus at the rates of RMB1.00 to HK\$1.130 and JPY16.338, JPY100.00 to HK\$6.916 and US\$1.00 to HK\$7.766. No representation is made that any amounts in RMB, HK\$, JPY and US\$ can be or could have been at the relevant date converted at the above rate or any other rates or at all.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Dr. Tang Donglei (唐東雷)	21-502, Jinxiu Garden Danghu Street Pinghu Zhejiang province PRC	Chinese
Mr. Yoshimasa Hashimoto (橋本剛昌)	3-27-2, Maeharacho Koganei-shi Tokyo Japan	Japanese
Mr. Tatsushi Hidano (飛田野達史)	Room 8513 Huating Hotel No. 123 Xingping Road Pinghu Zhejiang province PRC	Japanese
<i>Non-executive Directors</i>		
Mr. Takao Nishijima (西嶋尚生)	3-13-10, Kitakokubun Ichikawa-shi Japan	Japanese
Ms. Mami Matsushita (松下真実)	Galleria Mare #301 1-1-3, Higashi-Nihonbashi Chuo-ku, Tokyo 103-0004 Japan	Japanese
Dr. Ng Lai Man Carmen (吳麗文)	Flat G, 28/F, Block 16 Yee Tsui Court South Horizons Ap Lei Chau Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
<i>Independent non-executive Directors</i>		
Dr. Huang Ping (黃平)	Room 2206, Tower 5 Heqiaolijing No. 9 Xingzhou Street Industrial Park District Suzhou Jiangsu province PRC	Chinese
Dr. Eiichi Koda (甲田英一)	1-29-24, Daizawa Setagaya-ku Tokyo Japan	Japanese
Mr. Tam Kin Bor (譚建波)	Flat A, 56/F, Tower 3 The Hermitage 1 Hoi Wang Road Tai Kok Tsui Kowloon Hong Kong	Chinese

Please refer to the section headed “Directors, Senior Management and Employees” in this prospectus for further information on our Directors.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Halcyon Capital Limited
11/F, 8 Wyndham Street
Central
Hong Kong

Sole Global Coordinator

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

**Joint Bookrunners and
Joint Lead Managers**

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

Halcyon Securities Limited
11/F, 8 Wyndham Street
Central
Hong Kong

**Hong Kong Asset Management
Limited**
Unit 3408, 34th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Legal advisers to our Company

As to Hong Kong law:

Eversheds
21/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to PRC law:

Grandall Law Firm (Shanghai)

23-25/F, Garden Square
968 West Beijing Road
Jingan District
Shanghai 200041
PRC

As to Japanese law:

City-Yuwa Partners

Marunouchi Mitsui Building
2-2-2 Marunouchi
Chiyoda-ku
Tokyo, 100-0005
Japan

As to Cayman Islands law:

Maples and Calder (Hong Kong) LLP

53rd Floor, The Center
99 Queen's Road Central
Hong Kong

Legal advisers to the Underwriters

As to Hong Kong law:

Jones Day

31/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:

Global Law Office

15 and 20/F, Tower 1, China Central Place
No. 81, Jianguo Road
Chaoyang District
Beijing 100025
PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Auditors and reporting accountants	Ernst & Young <i>Certified Public Accountants</i> 22/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Compliance adviser	Halcyon Capital Limited
Industry consultant	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1018, Tower B No. 500 Yunjin Road Xuhui District Shanghai 200232 PRC
Property valuer	DTZ Cushman & Wakefield Limited 16th Floor, Jardine House No. 1 Connaught Place Central Hong Kong
Receiving banker	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered address	PO Box 309, Uglan House Grand Cayman, KY1-1104 Cayman Islands
Headquarters in the PRC	No. 2001 Pingcheng Road Pinghu Economic and Technology Development District Zhejiang Province PRC
Principal place of business in Hong Kong	21/F Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Website address	www.tsugami.com.cn <i>(information on the website does not form part of this prospectus)</i>
Company secretary	Ms. Wong Wai Yee Ella <i>(BEC, UKICSA, HKICS)</i> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Authorised representatives	Dr. Ng Lai Man Carmen Flat G, 28/F, Block 16 Yee Tsui Court South Horizons Ap Lei Chau Hong Kong Ms. Wong Wai Yee Ella Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Audit committee	Mr. Tam Kin Bor (Chairman) Ms. Mami Matsushita Dr. Huang Ping
Remuneration committee	Mr. Tam Kin Bor (Chairman) Dr. Huang Ping Mr. Yoshimasa Hashimoto
Nomination committee	Mr. Takao Nishijima (Chairman) Mr. Tam Kin Bor Dr. Eiichi Koda

CORPORATE INFORMATION

Principal share registrar	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall Cricket Square Grand Cayman KY1-1102 Cayman Islands
Hong Kong Branch Share Registrar and transfer office	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Sumitomo Mitsui Banking Corporation (China) Limited Shanghai Branch 11/F Shanghai World Financial Centre 100 Century Avenue Pudong New Area Shanghai PRC Bank Of Tokyo-Mitsubishi UFJ (China), Ltd. Shanghai Branch 20/F Azia Center No. 1233 Lujiazu Ring Road Free Trade Zone Shanghai PRC Mizuho Bank (China), Ltd. Shanghai Branch 23/F Shanghai World Financial Centre 100 Century Avenue Pudong New Area Shanghai PRC China Construction Bank Corporation Pinghu Branch No. 86-108, Danghu East Road Pinghu Town Jiaxing City Zhejiang province PRC

INDUSTRY OVERVIEW

This section contains information and statistics relating to the PRC economy and the industry in which we operate. We have derived such information and data partly from publicly available government and other third-party sources, which have not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters or any of our or their respective directors, officers, representatives or affiliates, or any other party involved in the Global Offering. Our Directors have taken reasonable care in the reproduction of such information, which may not be consistent with other information compiled within or outside the PRC. We commissioned Frost & Sullivan, an independent market research firm, as an industry consultant to prepare an industry research report (the “Frost & Sullivan Report”). We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading.

Unless otherwise specified, the market and industry information and data relating to the global and PRC markets for machine tools and CNC high precision machine tools in this section has been derived from the Frost & Sullivan Report.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan to conduct analysis of the global and PRC machine tool and CNC high precision machine tool markets and other economic data and to prepare the Frost & Sullivan Report. We have agreed to pay a fee of RMB1.15 million for the Frost & Sullivan Report, which will be paid prior to the Listing. Our Directors are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the Frost & Sullivan Report.

Frost & Sullivan is an independent global market research and consulting firm founded in 1961 and based in the United States. It offers industry research and market strategies and provides growth consulting and corporate training.

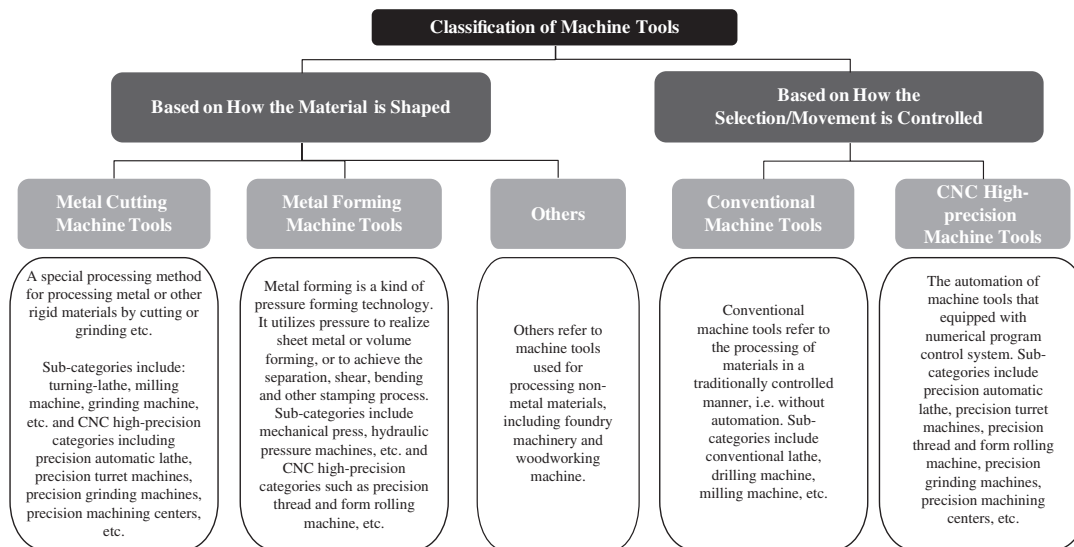
The Frost & Sullivan Report includes both historical and forecast information on the PRC machine tool and CNC high precision machine tool markets and other economic data. To prepare the Frost & Sullivan Report, Frost & Sullivan undertook both primary and secondary independent research through various resources within the PRC machine tool and CNC high precision machine tool industries. Primary research mainly involved (i) on-site visiting and interviewing the major players of the PRC CNC high precision machine tool industry; and (ii) obtaining and analysing the behaviour of the target customer groups to understand the product expectation from the demand side. Secondary research mainly involved checking the published data or related information from secondary sources, including but not limited to, the central or regional statistics bureau, and regular published materials, such as yearbook by industry associations including China Machine Tool & Tool Builders’ Association and China Association of Machinery Manufacturing Technology. We also use our internal database as a strong data support. Further, in order to obtain or verify the industry information, we also conducted interviews with stakeholders of the PRC CNC high precision machine tool industry, including machine tool manufacturers, machine tool trading companies, governing authorities and other industry stakeholders, such as raw material suppliers, downstream distributors and/or end customers. Frost & Sullivan has adopted the following primary assumptions while compiling and preparing the Frost & Sullivan Report: (i) the social, economic and political environment in the PRC is likely to remain stable in the forecast period; and (ii) related industry key drivers are likely to drive the market in the forecast period. Frost & Sullivan has also obtained the figures for the estimated total market size from historical data analysis plotted against the macroeconomic data as well as the industry key drivers. Our Directors confirm that, after making reasonable enquiries, there have not been any material adverse changes to the market information set out in the Frost & Sullivan Report since the date of such report which may qualify, contradict or have an impact on the information contained in this section.

INDUSTRY OVERVIEW

AN INTRODUCTION TO MACHINE TOOLS

Machine tools refer to machines that cut away surplus materials to leave a work piece of required shape and size, produced to an acceptable degree of accuracy and surface finish by cutting, milling, boring, grinding, drilling, shearing or other forms of deformation.

The following chart generally illustrates the segmentation of machine tools:



Source: Frost & Sullivan

THE PRC MACHINE TOOL MARKET

Despite being influenced by the financial crisis of world economy in 2012 and its subsequent impact, the PRC machine tool industry has witnessed an overall growth since 2011 due to government policies aiming to advance new technology and expand mechanical industries, resulting in a high demand and revenue for the PRC machine tool market. According to Frost & Sullivan, the market size of the PRC machine tool industry by revenue and sales volume reached approximately RMB284.1 billion and 1,797,100 units, respectively in 2016, demonstrating a CAGR of approximately 1.9% and 1.6% in terms of both revenue and sales volume from 2011 to 2016, and are expected to reach approximately RMB317.3 billion and 1,961,000 units, respectively in 2021, representing a CAGR of approximately 2.2% and 1.8%, respectively from 2016 to 2021.

The PRC CNC high precision machine tool industry

An introduction to CNC high precision machine tools

CNC high precision machine tools refer to machine tools that perform high precision work under the control of numerical program control system consisting of precise instructions on the methodology of the manufacturer, data handling, decoding as well as response to input. By reducing production time and human labour, CNC high precision machine tools increase the production efficiency and produce more products with higher precision than conventional machine tools. CNC high precision machine tools are primarily divided into the following major products: (i) precision automatic lathes, which removes material from a rotating work piece via the movements of various cutting tools and are typically used for the mass production of high precision small and long-axis bar components for IT and electronic products, office equipment, medical apparatus, consumer electronics products, automobiles, etc.; (ii) precision turret machines, which allow multiple cutting operations to be performed automatically and sequentially and are widely used for the production of plate-shaped or relatively large-diameter bar components for automobiles, pneumatic component manufacturing and metal processing, etc.; (iii) precision machining centres, which remove materials from rotating tools while the work piece remains relatively still and can be used in various components processing, including metal processing and automobile, IT and electronic equipment, etc.; (iv) precision

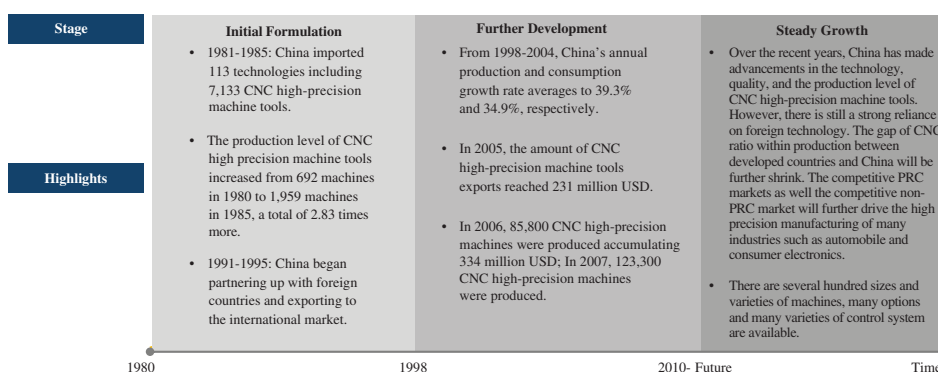
INDUSTRY OVERVIEW

thread and form rolling machines, which are designed to cold-work external screw thread on solid cylindrical blanks and are mainly used for mass production of processing complicated shape with no symmetry holes in rotary axis and are widely used for the construction and automobile industries; and (v) precision grinding machines, which use grinding wheels to grind and polish the metal work pieces and are widely used in cars, internal-combustion engine, military industry, aerospace, general and precision machinery.

Overview of PRC CNC high precision machine tool industry

The market size of the PRC CNC high precision machine tool industry by revenue and sales volume reached approximately RMB118.5 billion and 431,300 units, respectively in 2016, representing a CAGR of approximately 4.3% and 6.0%, respectively from 2011 to 2016. At a comparison, the market size of the PRC conventional machine tool industry by revenue and sales volume reached approximately RMB165.6 billion and 1,365,800 units, respectively in 2016, representing only a CAGR of approximately 0.3% and 0.4%, respectively from 2011 to 2016.

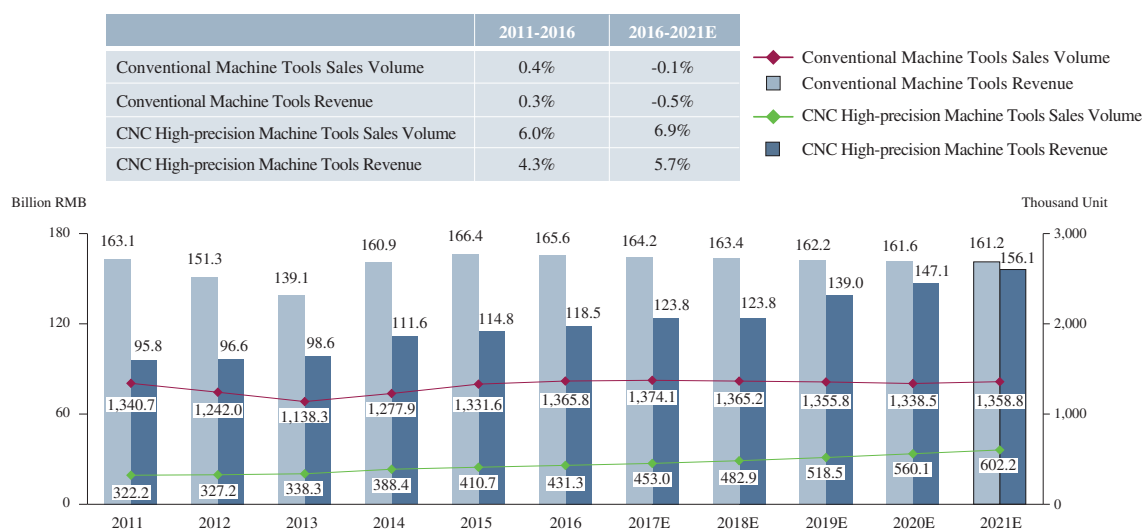
The chart below illustrates the life cycle of PRC CNC high precision machine tool industry:



Source: Frost & Sullivan

The charts below illustrate the historical and projected PRC CNC high precision machine tool market and conventional machine tool market in terms of revenue and sales volume from 2011 to 2021:

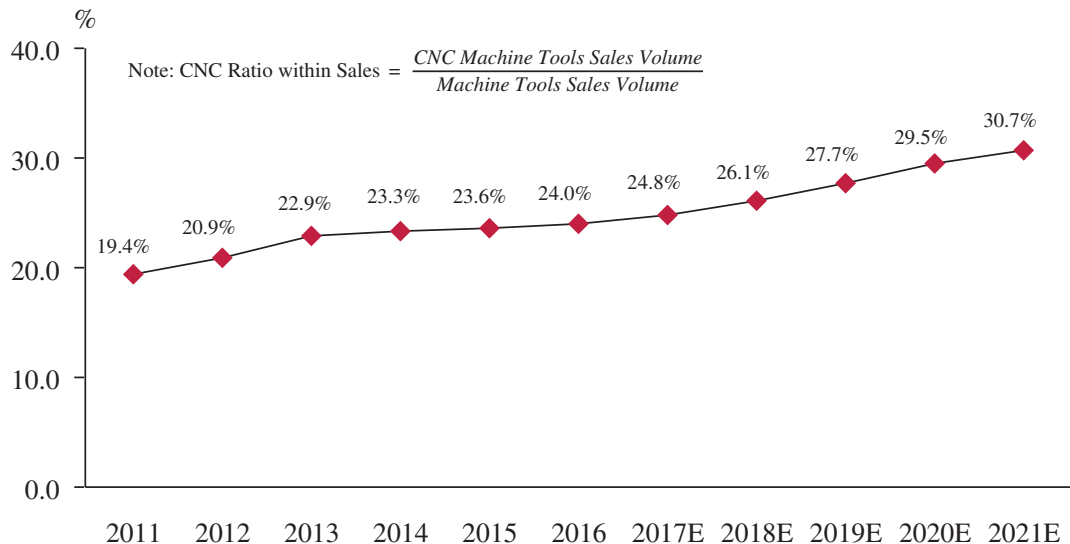
Machine Tools Market Size Breakdown by Sales Volume and Revenue (China), 2011-2021E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

The chart below illustrates the sales ratio of CNC high precision machine tools within the PRC from 2011 to 2021:

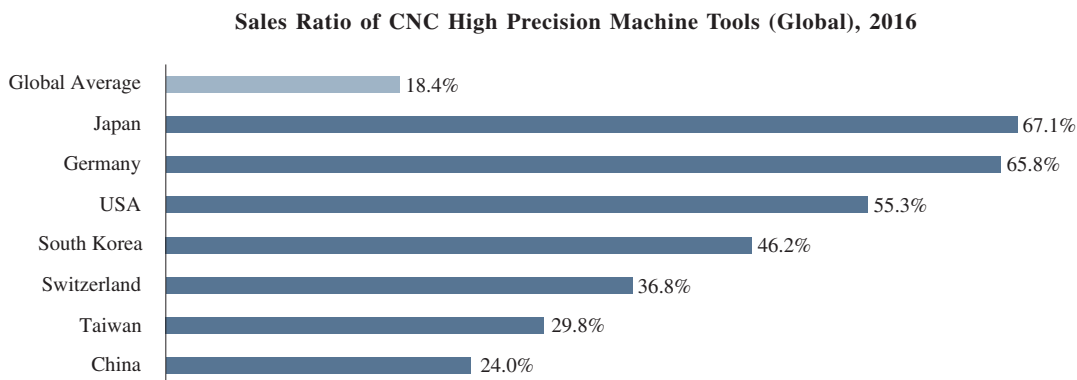


Source: Frost & Sullivan

As illustrated above, going forward, due to the development of CNC technology and favorable government policies, the sales ratio of CNC high precision machine tools within the PRC, being the ratio of the total sales volume of the PRC CNC high precision machine tools divided by the total sales volume of the PRC machine tools, is expected to further increase to approximately 30.7% in 2021, much higher than the sales ratio of approximately 19.4% in 2011.

According to Frost & Sullivan, the sales ratio of CNC high precision machine tools in the PRC reached approximately 24.0% in 2016, where such ratio in Japan, Germany, USA, South Korea and Taiwan in 2016 reached approximately 67.1%, 65.8%, 55.3%, 46.2% and 29.8% respectively. The sales ratio of CNC high precision machine tools demonstrates the overall technical capability and the technology advancement of a country. As such, although there is a growth in the PRC CNC high precision machine tool industry, the PRC CNC high precision machine tool industry is behind in terms of maturity of the CNC technology compared to the other developed countries, in particular, Germany and Japan. In other words, there are potential for the expansion of the PRC CNC high precision machine tool industry.

The chart below illustrates the sales ratio of CNC high precision machine tools in different countries:



Note: CNC Ratio within Sales = $\frac{\text{CNC Machine Tools Sales Volume}}{\text{Machine Tools Sales Volume}}$

Source: Frost & Sullivan

INDUSTRY OVERVIEW

SELECTED KEY CNC HIGH PRECISION MACHINE TOOLS IN THE PRC

Precision automatic lathe market

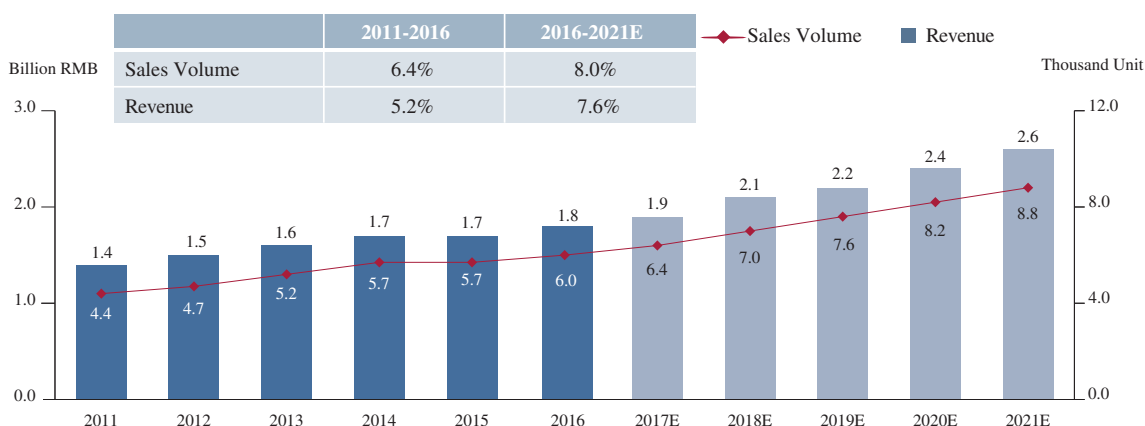
The PRC precision automatic lathe market is expected to experience a continuous growth due to the advanced development of downstream industries, such as the automobiles and electronic products and the government policies that encouraged the export of machine tools produced in the PRC. Precision automatic lathe market accounted for approximately 1.4% of the overall PRC CNC high precision machine tool market in terms of sales volume in 2016. According to Frost & Sullivan, the revenue and sales volume of the PRC precision automatic lathe market was expected to increase from approximately RMB1.8 billion and 6,000 units in 2016, respectively to approximately RMB2.6 billion and 8,800 units in 2021, respectively, representing a CAGR of approximately 7.6% and 8.0% from 2016 to 2021, respectively.

Precision turret machine market

The PRC precision turret machine market accounted for approximately 13.2% of the overall PRC CNC high precision machine tool market in terms of sales volume in 2016. According to Frost & Sullivan, the revenue and sales volume of the PRC precision turret machine market was expected to increase from approximately RMB17.0 billion and 57,000 units in 2016, respectively to approximately RMB23.2 billion and 80,800 units in 2021, respectively, representing a CAGR of approximately 6.4% and 7.2% from 2016 to 2021, respectively. As the future expansion of the PRC machine tool industry will mainly focus on the improvement of CNC high precision machine tools, precision turret machine market is expected to have a positive outlook.

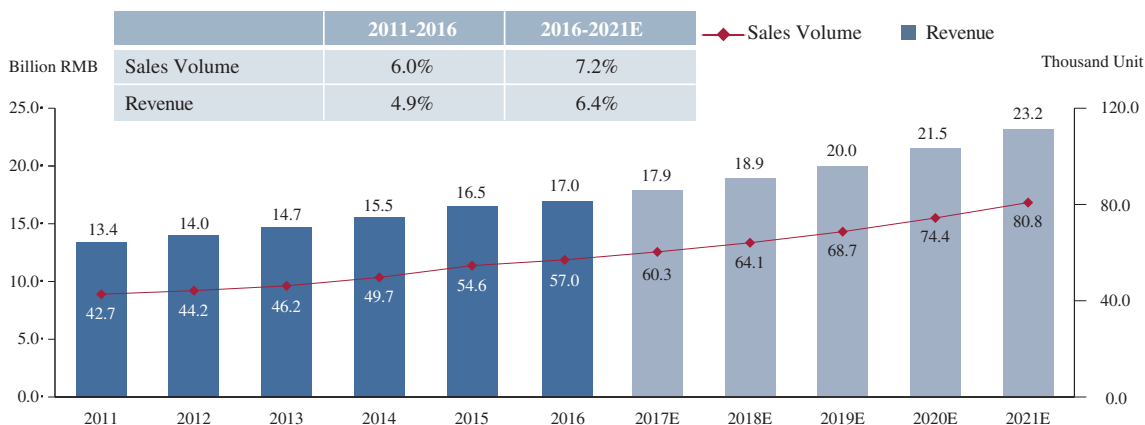
The charts below illustrate the historical and projected PRC precision automatic lathe market and precision turret machine market in terms of sales volume and revenue from 2011 to 2021:

Precision Automatic Lathe Market Size by Sales Volume and Revenue (China), 2011-2021E



Source: Frost & Sullivan

Precision Turret Machine Market Size by Sales Volume and Revenue (China), 2011-2021E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

SELECTED MAIN APPLICATION USES OF CNC HIGH PRECISION MACHINE TOOLS IN THE PRC

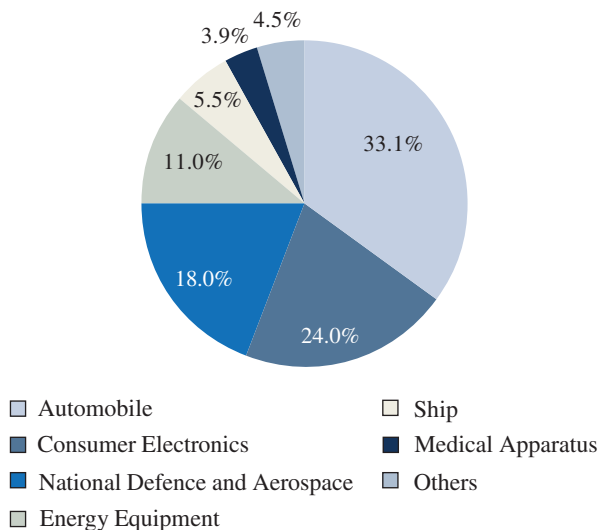
According to Frost & Sullivan, PRC automobile industry is the largest industry for the application of the CNC high precision machine tools which accounted for approximately 33.1% of the revenue of the PRC CNC high precision machine tool industry in 2016. Further, with the trend of energy saving and emission control in the automobile market, the industry will require more CNC high precision machine tools. The market size of automobile industry in the PRC has increased from approximately RMB4,918.5 billion in 2011 to approximately RMB8,645.4 billion in 2016, representing a CAGR of approximately 11.9% from 2011 to 2016. The automobile industry in the PRC has been developing at a fast speed over the past decade. The automobile ownership volume in the PRC has reached 182.9 million units in 2016, representing a CAGR of approximately 14.3% from 2011 to 2016 and is expected to reach 328.9 million units in 2021, representing a CAGR of approximately 12.5% from 2016 to 2021. Due to the increase of disposal income, automobiles become more affordable to the Chinese customers who regard vehicle as a life necessity and an indicator of social status. Also, the logistics advancement helps to drive the demand of vehicle consumption in the PRC. In 2016, the total value of social logistics goods reached RMB230 trillion, representing a CAGR of approximately 7.8% from 2011 to 2016 and is expected to amount to RMB355 trillion in 2021, representing a CAGR of approximately 9.1% from 2016 to 2021. The total value of social logistics goods is directly related to the total freight volume of social logistics goods. According to the statistics from the PRC Ministry of Transport, the total freight volume of social logistics goods reached approximately 43.1 billion ton in 2016, of which the total freight volume by land transportation represented approximately 77.5% of the total freight volume of social logistics goods with the total freight volume of approximately 33.4 billion ton in 2016. The increasing freight volume by land transportation stimulates the demand for commercial vehicles, including medium and heavy-duty trucks for regional logistics as well as light trucks, cargo vans and multi-purpose vehicles for urban logistics. Meanwhile, the demand for green cars (a road motor vehicle that produces less harmful substance to the environment than conventional internal combustion engine vehicles running on gasoline or diesel, or those which use alternative power sources such as electricity) has been constantly increased due to the increase of awareness of environmental protection and the support of the PRC government. The sales volume of green cars in the PRC increased from 8,000 units in 2011 to 507,000 units in 2016. In 2016, the sales volume of green cars accounted for approximately 1.8% of the total volume of vehicles sold in the PRC and the proportion is expected to exceed 20% by 2025, according to the PRC Ministry of Industry and Information Technology. The rise of the green car industry would benefit the entire PRC automobile industry. Therefore, the PRC automobile industry is expected to continue to grow at a CAGR of approximately 9.2% from 2016 reaching approximately RMB13,434.2 billion in 2021.

The consumer electronic product industry is the second largest industry for the application of the CNC high precision machine tools, which is expected to account for approximately 24.0% of the revenue of the PRC CNC high precision machine tool industry in 2016. According to Frost & Sullivan, the market size of PRC consumer electronic industry experienced significant growth from approximately RMB1,140.0 billion in 2011 to approximately RMB2,886.2 billion in 2016, representing a CAGR of approximately 20.4% from 2011 to 2016, due to the innovation and development of wireless communication, computer, smart phones and tablets. The market size of the PRC consumer electronic industry in terms of revenue is expected to continue to grow at a CAGR of approximately 14.1% from 2016 to 2021 and will reach approximately RMB5,586.5 billion in 2021.

INDUSTRY OVERVIEW

The pie chart below illustrates the breakdown of the PRC CNC high precision machine tool market by application in terms of revenue in 2016:

**Revenue of CNC High-precision Machine Tools
by Application Segments (China), 2016**



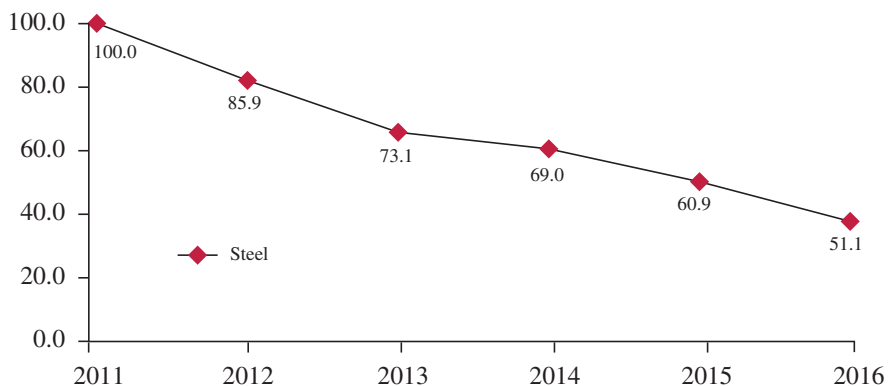
Source: Frost & Sullivan

PARTS AND COMPONENTS

The core parts and components used in the manufacture of CNC high precision machine tools are: (i) main engine, which is the main part of CNC high precision machine tools and is used to cut or process materials; (ii) numerical control devices, which are the core of CNC high precision machine tools and perform various control functions, among which, CNC system panels are the most essential components of CNC high precision machine tools and has an average purchasing price ranging from approximately RMB50,000 to RMB100,000 from 2011 to 2016; (iii) actuating devices including principle axis actuating unit, feeding unit, principle axis dynamo and feeding dynamo; and (iv) other supplementary materials, including numerical control rotary tables and monitoring devices that ensure the successful operation of CNC high precision machine tools.

The price of CNC high precision machine tools has been changing with the fluctuation of the prices of its raw materials, including steel and CNC system panels.

The chart below illustrates the fluctuations in the prices of steel from 2011 to 2016:



Source: Frost & Sullivan

Steel is one of the major raw materials in the manufacture of CNC high precision machine tools. There was a steady downturn of the average price of steel from 2011 to 2016 due to oversupply of steel.

INDUSTRY OVERVIEW

There are different types of CNC system panels in the market and the average prices of which range from RMB50,000 to RMB100,000 throughout 2011 to 2016. According to Frost & Sullivan, fluctuations in the prices of the raw materials and the average price of CNC high precision machine tools were not significant.

TECHNOLOGY

The manufacture of CNC high precision machine tools requires certain technology. According to the research conducted by Frost & Sullivan, which combined information in their internal databases, primary and secondary research as well as expert interviews with major industry participants, there are suppliers possessing the technical information and/or technologies, such as cutting, pressure forming and encoding technologies, which are essential for manufacturing CNC high precision machine tools in the PRC market, and also similar technology licensing transactions in the PRC market at the licensing rates comparable to our royalty rate of 1.0% for our older models and 5.0% for our newer models of CNC high precision machine tools under the Technology Licence Agreement. As such, our royalty rate of 1.0% or 5.0% for our older models or newer models of CNC high precision machine tools paid to Tsugami Japan pursuant to the Technology Licence Agreement has been in line with the industry practice and there are alternative suppliers of similar technology available in the PRC market.

KEY BARRIERS TO ENTRY

Key barriers to entry in the PRC CNC high precision machine tool market include: (i) advanced technology and design capacity; (ii) financial capacity and equipment; (iii) branding and market reputation; and (iv) management and organisation skills. Advanced technology and design capacity are the key to manufacture complicated CNC high precision machine tools which meet customers' specific requirements. Financial capacities and equipment are essential for manufacturing CNC high precision machine tools, building a comprehensive sales network, training technology talents and managing customer relationship. Branding and market reputation are fundamental to win customers' trust in respect of manufacturers' product quality and stability, and are critical to be successful in this competitive market. Management and organisation skills are required in all aspects for the manufacturing business.

AVERAGE PRICE OF THE PRC CNC HIGH PRECISION MACHINE TOOLS

According to Frost & Sullivan, the average price of CNC high precision machine tools in the PRC slightly decreased from approximately RMB297,300 per unit in 2011 to approximately RMB274,800 per unit in 2016, and is expected to decrease to approximately RMB259,200 per unit in 2021 due to technology innovation and reduced reliance on import. There was no material fluctuation in the average price of CNC high precision machine tools in the PRC from 2011 to 2016. The average price of precision automatic lathe in the PRC decreased slightly from approximately RMB313,000 per unit in 2011 to approximately RMB302,000 per unit in 2016, and is expected to decrease to approximately RMB291,000 per unit in 2021. The average price of precision turret machine in the PRC also decreased slightly from approximately RMB314,000 per unit in 2011 to approximately RMB298,000 per unit in 2016, and is expected to decrease to approximately RMB287,000 per unit in 2021. According to Frost & Sullivan, overall speaking, the average price of CNC high precision machine tools is expected to have no significant change from 2016 to 2021.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE

The PRC CNC high precision machine tool market is led by a small number of domestic major players with the market highly fragmented. Our key competitors in the PRC machine tool market are primarily set out below:

<u>Ranking</u>	<u>Company</u>	<u>Market share in terms of revenue</u>	<u>Major business</u>
1	Dalian Machine Tool Group Corp.	6.9%	Lathes, economic lathes, full capacity lathes, machine centers, transfer and unit machines that are used in automobile, vessel, aerospace, electricity engineering and textile industries, etc.
2	Shenyang Machine Tool Co., Ltd.	3.8%	CNC lathes, vertical machine centers and special lathes that are primarily used in automobiles, vessels, electronics, rail transport and engineering industries, etc.
3	Beijing Jingdiao Group Co., Ltd.	2.2%	CNC machine tools and CNC systems that are primarily used in woodcarving and medical equipment industries, etc.
4	our Company	0.9%	CNC high precision machine tools that are primarily used by manufacturers in IT, electronics, automobile, medical apparatus, etc.
5	Qinchuan Machine Tool & Tool Group Share Co., Ltd.	0.8%	CNC machine tools, plastic machinery and environmentally friendly materials, hydraulic and auto parts and CNC systems that are used in automobiles, aerospace, engineering and education industries, etc.
6	Ningbo Haitian Precision Machinery Co., Ltd.	0.8%	CNC lathes and machine centers that are primarily used in aerospace, transportation, engineering industries, etc.
7	Citizen (China) Precision Machinery Co., Ltd.	0.7%	Automatic lathes and turning lathes that are primarily used in the precision instrument manufacturing and electronics, engineering industries, etc.

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Ranking	Company	Market share in terms of revenue	Major business
8	Yamazaki Mazak (China) Co., Ltd.	0.6%	CNC lathes and laser processing machines that are primarily used in automobiles, engineering, agricultural and medical industries, etc.
9	MAG (USA) Group Corp.	0.6%	Automatic and turning lathes that are primarily used in automobiles, energy, aerospace, mining and agricultural industries, etc.
10	Star Micronics (Dalian) Co., Ltd.	0.6%	Automatic lathes and other machine tools that are primarily used in automobile, electronics industries, etc.

OUR KEY ADVANTAGES OVER OUR COMPETITORS

According to Frost & Sullivan, we have five key success factors: (i) our superior customer services in reducing delivery time and providing after sales services such as repair and maintenances to customers; (ii) our long-term and stable relationship with quality suppliers which enables us to receive better pricing and maintain cost advantages over our competitors; (iii) our professional management team that has management experience and in-depth knowledge of CNC high precision machine tool industry in the PRC and inherits the professional management heritage of over 70 years from Tsugami Japan; (iv) our Trademarks and Technology licensed from Tsugami Japan have enabled us to utilise the industry-leading technology of Tsugami Japan to meet customers' increasing needs for CNC high precision machine tools. We are also able to achieve a CNC rate of 100.0% in terms of manufacturing, higher than the average rate of approximately 30.0% for most of the machine tool manufacturers in China; and (v) our strong sales and distribution network that not only covers the major cities and provinces in the PRC as well as Taiwan and other overseas markets through the Tsugami Japan Group.

FUTURE DEVELOPMENT

Key drivers

There are five key drivers of growth in the PRC CNC high precision machine tool market: (i) sustained growth of macro economy and industrial output value; (ii) rising and shifting demand from downstream industry on CNC high precision machine tools; (iii) evolutionary sales channel of CNC high precision machine tools; (iv) rising adoption of CNC system; and (v) adequate regulations support for CNC high precision machine tool industry. According to Frost & Sullivan, China's nominal GDP is expected to sustain a long-term growth with a CAGR of approximately 7.3% from 2016 to 2021 and reach approximately RMB105.7 trillion in 2021. Given the high correlation between the PRC CNC high precision machine tool market and the macro economy, the PRC CNC high precision machine tool industry is likely to be further strengthened. Secondly, as the CNC high precision machine tools continue to be applied to different industries including the electronic device, automobile and healthcare industries, the further development of these industries will stimulate the CNC high precision machine tools demand from end users. Thirdly, in order to lower the risk of default payment by selling through distributors, the manufacturers will expand the regional coverage of their business, thereby facilitating the development of the CNC high precision machine tools. Considering the

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sales ratio of CNC high precision machine tools is expected to exceed 30% by the end of 2021, there is a positive outlook for the development of the CNC high precision machine tool industry in the PRC. Finally, as the PRC government continues to adopt favourable policies that support and boost the development of the CNC high precision machine tool industry, such as encouraging the development of the manufacturing technology of machine tools and strengthening the competitiveness and demand of machine tools in the PRC, more business opportunities will be generated for the CNC high precision machine tool industry in the PRC.

Industry development

The PRC CNC high precision machine tool market is full of opportunities. Import of CNC high precision machine tools from Japan and Germany currently exceeds 60.0% of the total consumption of CNC high precision machine tools in the PRC in terms of sales volume, according to Frost & Sullivan, indicating the increasing demands for CNC high precision machine tools in China. China's economic restructure also drives the development of many downstream industries, such as civil industry and national defence industry, which in turn offers new opportunities for the development of CNC high precision machine tool market. Meanwhile, the PRC CNC high precision machine tool manufacturers also face the following challenges: (i) technological gap in numerical system between China and some developed countries such as Japan and Germany; and (ii) China's limited ability in research and development of some crucial components and parts in manufacturing CNC high precision machine tools, which results in overseas suppliers' restrictive measures over China's procurement of crucial components and parts.

The five main trends for the development of PRC CNC high precision machine tool market are: (i) high speed; (ii) intelligentisation; (iii) high precision oriented; (iv) technology integration; and (v) product diversification. Firstly, PRC CNC high precision machine tool market has entered into a high-speed era. Manufacturers need to shorten their delivery time by upgrading their automation level, while improving product quality. Further, the overall performance of CNC high precision machine tools can be improved by, among others, manufacturers' innovation in CNC systems, neural network and evolutionary computation in the era of artificial intelligence technology advancements. Thirdly, production system for manufacturing industries shall be transformed from labour incentive to technology intensive in order to cope with the rising labour costs and the industry trend of energy saving and emission reduction, and as a result, the demand for high precision CNC high precision machine tools will be increased. Fourthly, the increasing application of CNC high precision machine tools with high technologies integrated can reduce the production time and increase productivity in mass production. Finally, CNC high precision machine tools are widely utilised in different downstream industries. With the rapid development of some downstream industries, such as IT and electronic products, automobile and medical apparatus, there will be an increase in demand for the CNC high precision machine tools from such downstream industries.

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Our operation and business activities are conducted in the PRC. As such, we are required to abide by relevant PRC laws, regulations, rules and policies. The following is an overview of main relevant PRC laws, regulations, rules and policies, and we believe that prospective investors must inform themselves as thereto.

I. REGULATIONS AND POLICIES RELATING TO THE INDUSTRY

1. Regulatory system

At present, China's machinery manufacturing industry is mainly managed by the National Development and Reform Commission ("NDRC") and the Ministry of Industry and Information Technology of the People's Republic of China ("MIIT") in line with the principle of market orientation. In addition, industry associations including China Machinery Industry Federation and China Machine Tool & Tool Builders' Association play a coordination role among the government, domestic and foreign machine-related industries and users.

2. Major industry policies

At present, there is no restriction to entry into the industry, and special qualification, entry regulation and permit are not required.

At present, industry policies targeted at CNC machine tools and CNC system industry include:

- (1) On 9 February 2006, the State Council of the People's Republic of China ("State Council") promulgated the Outline of the National Program for Long-and Medium-term Scientific and Technological Development (2006-2020) (《國家中長期科學和技術發展規劃綱要(2006-2020)》), which proposed to further highlight the priority according to the national objectives, pick out several major strategic products, key technologies or major engineering projects as major projects and give full play to the advantage of concentrating resources on large undertakings and the role of market mechanism under the socialist system for a breakthrough, in an effort to achieve leapfrog development of productivity through partial growth of scientific development and fill a blank in national strategy. Under the guidance of national technology policies, a series of policies and measures and special scientific research programs that help improve the tackling of scientific and technological projects in the machine tool industry were rolled out, which mainly are: basic research programs, including National Natural Science Foundation of China and National Key Development Program for Basic Research of China (973 Program), National Key Technology R&D Program, High Technology Research and Development Program of China (863 Program), major scientific and technological special project of high-end CNC machine tool and basic manufacturing equipment and building of other conditions platforms.

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- (2) On 10 October 2010, the State Council deliberated and approved Decisions of the State Council on Accelerating the Fostering and Development of Strategic Emerging Industries (《國務院關於加快培育和發展戰略性新興產業的決定》), under which, high-end equipment manufacturing industry as a key area is included as one of the seven strategic emerging industries, and China will mobilize its resources to speed up development of the industry and strengthen policy support for finance and tax.
- (3) On 17 February 2012, 10 ministries and commissions including the Ministry of Commerce of the People's Republic of China (the “**Ministry of Commerce**”) jointly issued Opinions on Accelerating the Shift of Development Mode of Foreign Trade (《關於加快轉變外貿發展方式的指導意見》) (the “**Opinions**”). The Opinions specifies that in the near future, the goal of China's foreign trade development is to consolidate the status of a large trading country and promote development toward a trading power. The Opinions encourages domestic commercial banks to carry out import & export credit business and upgrade services in the principle of keeping risks under control and sustainable commercial development. Besides, efforts are made to give full play to the support of the Export-Import Bank of China for foreign trade development; bolster up financing guarantee institutions to expand import & export financing guarantee for medium and small machine tool manufacturers and to step up support for import & export credit of medium and small machine tool manufacturers; fully leverage the policy guidance of export credit insurance and underpin export of goods, technologies and services in line with the direction of national economic restructuring.
- (4) On 8 May 2015, the State Council unveiled China Manufacturing 2025 (《中國製造(2025)》), a ten-year plan to maintain the nation's status as a manufacturing powerhouse. The program calls for accelerated development of intelligent equipment and products, research and development of high-end and auto-run CNC machine tools with in-depth perception and smart decision platform, industrial robots, additive manufacturing equipment and other intelligent manufacturing equipment, as well as core areas of the intelligent manufacturing equipment such as intelligent production lines, ground-breaking innovative sensors, intelligent measurement, industrial control systems, servers and drivers and retarders for further engineering and industrialization. China Manufacturing 2025 also calls for accelerated improvement in quality of products by taking action plans for key industries engaged in automobile, high-end CNC machine tools, railway transportation equipment, complete sets of large technology equipment, engineering machine, special equipment, crucial materials, basic parts and components and electronic components, and promote development of machine tools with high precision, speed, efficiency and flexibility with basic manufacturing equipment and integrated manufacturing systems, accelerated research and development of cutting-edge technologies and equipment in the areas of high-end CNC machine tools and additive manufacturing, and development of key components and crucial application software for high-end CNC systems, servers, spindles bearings and gratings so as to accelerate industrialization and enhance the ability of examining production techniques.

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- (5) On 29 December 2015, the MIIT and the Standardisation Administration of the People’s Republic of China (the “**Standardisation Administration**”) issued the Guidelines for the Construction of National Standard System for Intelligent Manufacturing (2015 Edition) (《國家智能製造標準體系建設指南(2015年版)》) (the “**Guidelines**”), pointing out that accelerating the development of intelligent manufacturing is the main direction of implementation of China Manufacturing 2025 and the strategic initiative for fulfilling the in-depth integration of industrialization and informatization and building a powerful manufacturing country, and particularly the key to keeping pace with the international developing trend and realizing transformation and upgrading for China’s manufacturing industry. The Guidelines aims at guiding the standardization of intelligent manufacturing at present and in the near future, making full use of the fundamental and leading role of the standards in the development of intelligent manufacturing as well as building a new standard system whereby the government-led standards and the market-led standards can achieve synergistic development and supplement each other.
- (6) On 16 March 2016, the 4th meeting of the 12th National People’s Congress approved the Outline of the Thirteenth Five-Year Plan for the National Economic and Social Development of the People’s Republic of China (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》) to carry out the strategy of building up a country with strong manufacturing power and deeply implement “China Manufacturing 2025”, with improvement of the capability of innovation and foundation of the manufacturing industry as the focus, so as to promote the intensive integration of the information technology with the manufacturing technology and boost development of the manufacturing industry towards high end, intelligence, green and services for the purpose of cultivation of new competitive advantages of the manufacturing industry.
- (7) On 24 March 2016, China Machinery Industry Federation promulgated the Outline of the Thirteenth Five-Year Plan for the Development of the Machinery Industry (《機械工業「十三五」發展綱要》) (the “**Outline**”). The Outline points out that the machinery industry will maintain stable operations under the new normal during the thirteen five-year plan period with the objectives and tasks in “China Manufacturing 2025” as the guidance. Quality growth at high-to-meddle rates will be achieved. Preliminary effects will be seen in innovative drive with increased capability in independent innovation. The competitiveness of high-end equipment will be strengthened with improved industrial foundation. The integration of informatization and industrialization will be gradually deepened with demonstration started for intelligent manufacturing. The green development concept will be established with the energy conservation and emission reduction effects leading the average industrial level. Great efforts will be put on the development of such intelligent manufacturing equipment as high-end CNC machine tools, industrial robots, automated control systems, intelligent instruments and intelligent sensors.

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- (8) On 12 April 2016, the MIIT promulgated the Guide for Implementation of Intelligent Manufacturing Engineering (2016-2020) (《智能製造工程實施指南(2016-2020)》). During the thirteen five-year plan period, one of the specific engineering objectives is to achieve breakthroughs for the key technology and equipment such as high-end CNC machine tools with stronger competitiveness and domestic market share rate exceeding 50%.
- (9) On 28 July 2016, the State Council promulgated the Thirteenth Five-Year Plan on National Science and Technology Innovation (《「十三五」國家科技創新規劃》). The plan lists high-end CNC machine tools and basic manufacturing equipment as national science and technology major projects to which policy supports will be provided by the State Council.
- (10) On 1 August 2016, the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (the "AQSIQ"), the Standardisation Administration and the MIIT jointly prepared the Program on Equipment Manufacturing Industry Standardisation and Quality Enhancement (《裝備製造業標準化和質量提升規劃》) with relevant departments. The program points out that reliable design shall be strengthened and the quality control during the testing and production process shall be enhanced with the demand of high-end CNC machine tools for key raw materials and core basic components as the emphasis and with key process and special process impacting the quality to a larger extent as the breakthrough so as to promote the application of new processing, new materials and new technology for the improvement of equipment quality.
- (11) On 31 October 2016, the MIIT promulgated the Plan for Development of Innovation Capability of Industrial Technologies (2016-2020) (《產業技術創新能力發展規劃(2016-2020年)》) to build an innovation center for the manufacturing industry of the State by focusing on the major national strategies in the ten key fields including high-end CNC machine tools determined in "China Manufacturing 2025". Meanwhile, high-end CNC machine tools and basic manufacturing equipment are also listed as key developments of the machinery industry.
- (12) On 29 November 2016, the State Council promulgated the Plan for Development of the National Strategic Emerging Industries (《「十三五」國家戰略性新興產業發展規劃》) during the Period of the Thirteen Five-Year Plan. The high-end equipment manufacturing industry, as a key field, is listed as one of the seven major strategic emerging industries. Research, development and industrialization of high-end CNC machine tools will be accelerated. Precise, high-speed, highly efficient and flexible high-end CNC machine tools with the function of network communication, basic manufacturing equipment and integrated manufacturing systems will be developed and promoted for application. Financial, fiscal and tax supports to the strategic emerging industries and enterprises will be enlarged.

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II. FOREIGN INVESTMENTS

According to the Wholly Foreign-Owned Enterprise Law of the People's Republic of China (《中華人民共和國外資企業法》) promulgated on 12 April 1986 and revised on 31 October 2000 and 3 September 2016 and the Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People's Republic of China (《中華人民共和國外資企業法實施細則》) promulgated on 12 December 1990 and revised on 12 April 2001 and 19 February 2014, an application for establishing a wholly foreign-owned enterprise shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China (currently known as the Ministry of Commerce) before the approval certificate is issued. Within 90 days of the date of receipt of an application, the examination and approval authority shall decide whether or not to grant the approval. After application for the establishment of a foreign-owned enterprise is approved by the examination and approval Authority, the foreign investors shall, within 30 days of the date of receipt of the approval certificate, submit registration to and collect the business license from the administrative authority for industry and commerce. The record-filing administration is applied to the establishment and change of a foreign-owned enterprise that does not involve special access administrative measures prescribed by the State.

According to the Catalogue for the Guidance of Foreign Investment Industries (2017 Revision) (《外商投資產業指導目錄(2017年修訂)》) promulgated on 28 June 2017 and effective since 28 July 2017, which comprises the encouraged foreign-invested industries catalogue and the special access administrative measures for foreign investment, the latter of which setting out the restriction measures such as shareholding requirements and qualifications of the senior management, when domestic companies, enterprises or natural persons conduct mergers and acquisitions of the domestic companies with related relationship with their companies legally established or controlled overseas, the establishment and change of foreign-funded enterprises shall be subject to the existing provisions.

According to the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-funded Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) promulgated on 8 October 2016 and revised on and effective since 30 July 2017, if the incorporation and change of a foreign-funded enterprise does not involve the implementation of special access administrative measures prescribed by the State, the record-filing administration shall be applied. In respect of the establishment of a foreign-funded enterprise, change of basic information of the enterprise or its investors, change of its equity interests (shares) or cooperation interests, merger, demerger or termination, mortgage or transfer to outsiders and other matters, the foreign-funded enterprise shall file relevant documents online through the integrated management system upon issue of the business license or within 30 days following the change.

According to the Regulations on Guiding Foreign Investments (《指導外商投資方向規定》) promulgated on 11 February 2002 and effective as from 1 April 2002, foreign investments are classified into four categories, namely encouraged, permitted, restricted and prohibited. Foreign investment projects in the encouraged category, restricted category and

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prohibited category are included into the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》). Those not belonging to the aforesaid categories are permitted foreign investment projects and are not included into the Catalogue for the Guidance of Foreign Investment Industries.

According to the Catalogue for the Guidance of Foreign Investment Industries (2017 Revision) (《外商投資產業指導目錄(2017年修訂)》) promulgated on 28 June 2017 and effective since 28 July 2017, manufacturing of high-end CNC machine tools and key spare parts: five-axis alignment CNC machine tools, CNC coordinate boring and milling processing center and CNC coordinate grinding machines, belongs to the encouraged category.

Therefore, according to the Catalogue for the Guidance of Foreign Investment Industries, the business activities that the PRC subsidiaries of the Group engages in are encouraged foreign investment projects. Such business activities do not involve special administrative measures on access prescribed in state provisions and the PRC subsidiaries shall conduct relevant filing procedures for its changes according to the Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (if applicable).

According to the Company Law of the People's Republic of China (《中華人民共和國公司法》) promulgated on 29 December 1993 and revised on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 and the Regulations on Corporate Registration of the People's Republic of China (《中華人民共和國公司登記管理條例》) promulgated on 24 June 1994 and revised on 18 December 2005, 19 February 2014 and 6 February 2016, the above laws and regulations are also applicable to the foreign investment liability limited company except as otherwise provided in the law on foreign investment.

III. INTELLECTUAL PROPERTY RIGHT

1. Patents

According to the Patent Law of the People's Republic of China (《中華人民共和國專利法》) promulgated on 12 March 1984 and revised on 4 September 1992, 25 August 2000 and 27 December 2008 respectively as well as the Rules for the Implementation of the Patent Law of the People's Republic of China (《中華人民共和國專利法實施細則》) promulgated on 19 January 1985 and revised on 15 June 2001, 28 December 2002 and 9 January 2010 respectively, companies may apply for patent for invention, utility model patent and design patent as per the nature of their technological achievements. Term of patent for invention shall be 20 years from the date of application while those of utility model patent and design patent shall be 10 years from the date of application. An employer has the right to apply for patent for inventions made by an employee performing the said employer's tasks or patents accomplished mainly with the materials and technical means of the said employer. After relevant patent application is approved, the said employer shall be the patentee of such patents unless otherwise specified between the employer and the employee.

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2. Trademark

According to the Trademark Law of the People's Republic of China (《中華人民共和國商標法》) promulgated on 23 August 1982 and revised on 22 February 1993, 27 October 2001 and 30 August 2013 respectively as well as the Regulation for the Implementation of the Trademark Law of the People's Republic of China (《中華人民共和國商標法實施條例》) promulgated on 3 August 2002 and revised on 29 April 2014, any natural person, legal person or other organizations that need to obtain the exclusive right to use a trademark for their commodities or services during their production and operation activities shall apply for the registration of the said trademark with the Trademark Office. The requirements relating to commodity trademarks apply to service trademarks. The exclusive right to use a trademark shall be subject to the registered trademark and the specified commodities. The validity period of a registered trademark shall be 10 years starting from the date of registration. The validity period of a registered trademark may be extended upon expiry.

3. Copyright

According to the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) promulgated on 7 September 1990 and revised on 27 October 2001 and 26 February 2010 respectively, Regulations for the Implementation of the Copyright Law of the People's Republic of China (《中華人民共和國著作權法實施條例》) promulgated on 30 May 1991 and revised on 2 August 2002, 8 January 2011 and 30 January 2013 respectively and the Regulation for Computer Software Protection (《計算機軟件保護條例》) promulgated on 4 June 1991 and revised on 20 December 2001, 8 January 2011 and 30 January 2013, any natural person, legal person or other organizations enjoy the copyright of their works, regardless of whether they are published or not.

According to the Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》) promulgated on 6 April 1992 and revised on 26 May 2000, 20 February 2002, such measures are applicable to registration of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The state copyright administrative department shall encourage software registration and give priority to the protection of the registered software.

4. Domain name

According to Measures for the Administration of Internet Domain Names of China (《中國互聯網絡域名管理辦法》) promulgated on 1 August 2002 and revised on 5 November 2004 as well as Rules for Implementation of China Internet Network Information Center (CNNIC) Domain Name Registration promulgated on 25 September 2002 and revised on 25 June 2009 and 28 May 2012, the registration of Chinese domain names and domain names with country code “.cn” shall be regulated. Any natural person or organization able to assume civil liability independently shall be entitled to apply for registration of domain names, and they shall become owners of the registered domain name upon completion of registration.

According to the Measures on Domain Name Dispute Resolution of China Internet Network Information Center (《中國互聯網絡信息中心域名爭議解決辦法》) revised on 28 June 2012 and 1 September 2014, the Supplemental Rules on Measures on Domain Name

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Dispute Resolution of China Internet Network Information Center (《中國互聯網絡信息中心域名爭議解決辦法補充規則》) promulgated on 8 October 2007 and 28 June 2012 and revised on 21 November 2014 and the Procedural Rules on Domain Name Dispute Resolution of China Internet Network Information Center (《中國互聯網絡信息中心域名爭議解決程序規則》) promulgated on 25 September 2002 and revised on 17 March 2006, 8 October 2007 and 28 May 2012, domain name dispute case shall be submitted to the institutions authorized by the China Internet Network Information Center for settlement.

IV. PRODUCTION SAFETY LAW

According to Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) promulgated on 29 June 2002 and revised on 27 August 2009 and 31 August 2014 respectively, the production and operation entities shall meet relevant requirements for safety production as specified in the production safety law and other relevant laws, administrative regulations and national and industrial standards. Entities not qualified for safety production shall not be engaged in production and relevant business activities. Production entities shall provide its employees with relevant education and training programs related to safety production. Design, manufacture, installation, use, examination, maintenance, reforming and claiming as useless of the safety equipment shall meet national or industrial standards. In addition, production and operation entities shall supply their employees with protective articles that meet national or industrial standards and instruct them to wear or use such articles as required.

V. PRODUCT QUALITY

According to the PRC General Principles of Civil Law (《中華人民共和國民法通則》) promulgated on 12 April 1986 and revised on 27 August 2009, manufacturers and sellers of defective products are subject to civil liability for damages or injuries by their products.

According to Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) promulgated on 22 February 1993 and revised on 8 July 2000 and 27 August 2009 respectively, manufacturers shall be responsible for the quality of their products and sellers shall take appropriate measures to guarantee the quality of the products sold by them. Sellers shall be liable for any loss of property or personal injury resulting from using relevant defective product. Those who have suffered from loss of property or personal injury because of the defective product may claim compensation from relevant manufacturer or seller.

According to Regulations on Quality Responsibility for Industrial Products (《工業產品質量責任條例》) promulgated on 5 April 1986 and effective as from 1 July 1986, manufacturers shall ensure that the quality of their products meets the requirements of relevant laws and regulations, quality standard and contracts. Moreover, manufacturers must set up a well-knit, coordinating and effective quality assurance system to stipulate accountability of product quality.

According to the PRC Tort Law (《中華人民共和國侵權責任法》) promulgated on 26 December 2009 and came into force on 1 July 2010 and the Opinions of the Supreme People's Court of Several Issues concerning the Application of the PRC Tort Law (《最高人民法院關

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於適用<中華人民共和國侵權責任法>若干問題的通知》) promulgated on 30 June 2010 and came into force on 1 July 2010, in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation of the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek compensation from the manufacturer upon compensation of the victim.

National standards applicable to the products of the Group include: GB15760-2004 Safety Protection General Technical Conditions of Metal-cutting Machine Tool (GB15760-2004 《金屬切削機床安全防護通用技術條件》), GB5226.1-2008 Machinery and Electric Safety – Mechanical and Electrical Equipment (Part I): General Technical Conditions (GB5226.1-2008 《機械電氣安全機械電氣設備第1部分：通用技術條件》), GB/T16462.1-2007 Test conditions for numerically controlled turning machines and turning centres-Part 1: Geometric test for machines with a horizontal workholding spindle (GB/T16462.1-2007 《數控車床和車削中心檢驗條件第1部分：臥式機床幾何精度檢驗》) and GB/T16462.4-2007 Test conditions for numerically controlled turning machines and turning centres-Part 4: Accuracy and repeatability of positioning of linear and rotary axes (GB/T16462.4-2007 《數控車床和車削中心檢驗條件第4部分：線性和迴轉軸線的定位精度及重複定位精度檢驗》), etc.

VI. IMPORT AND EXPORT SALE OF PRODUCTS

According to Foreign Trade Law of the People's Republic of China (《中華人民共和國對外貿易法》) promulgated on 12 May 1994 and revised on 6 April 2004 and 7 November 2016 as well as Measures for the Archival Filing and Registration of Foreign Trade Business Operators (《對外貿易經營者備案登記辦法》) promulgated on 25 June 2004 and effective as from 1 July 2004, foreign trade operators engaged in the import and export of commodities or technologies shall be filed and registered with the competent department of foreign trade under the State Council or an institution entrusted by it, except those exempt from doing so pursuant to laws, administrative regulations and rules of the competent department of foreign trade under the State Council. Foreign trade operators failing to go through relevant filing and registration formalities accordingly shall not be permitted to proceed to declaration and Clearance at the Customs. As confirmed by our PRC Legal Advisers with the Bureau of Commerce of Pinghu Municipality, no filing and registration formalities are required for foreign trade operators importing raw materials for their self-produced products and exporting self-produced products.

According to the Customs Law of the People's Republic of China (《中華人民共和國海關法》) promulgated on 22 January 1987 and revised on 8 July 2000, 29 June 2013, 28 December 2013 and 7 November 2016, consignees and consigners of import or export commodities may go through declaration formalities on their own or entrust an agent to do so for them on the condition that both the said consignees and consigners and agents entrusted with such declaration formalities have been legally registered with the Customs.

According to the Provisions on Administration of Registration of Customs Declaration Entities of the People's Republic of China (《中華人民共和國海關報關單位註冊登記管理規定》) (promulgated on and effective as from 13 March 2014), customs declaration entities shall

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be registered with the Customs in accordance with these Provisions unless otherwise prescribed by laws, administrative regulations or customs rules. The registration of customs declaration entities includes the registration of customs declaration enterprises and the registration of the consignees or consignors of imported/exported goods. A customs declaration enterprise may not provide customs declaration services until it has obtained a registration license from the local customs office directly under the General Administration of Customs or a subordinate customs office authorized by it. A consignee or consignor of imported/exported goods may directly go through the registration procedure at the local customs office.

On 10 February 2004, the Group obtained the Declaration Registration Certificate for Consignee or Consignor of Import or Export Goods issued by the Customs.

According to the Law of the People's Republic of China on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法》) promulgated on 21 February 1989 and revised on 28 April 2002 and 29 June 2013, the Regulations for the Implementation of the Law of the People's Republic of China on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法實施條例》) promulgated on 23 October 1992 and revised on 31 August 2005, 6 February 2016 and 1 March 2017 and the Administration of Entry-Exit Inspection, Quarantine and Inspection and Quarantine Reporting (《出入境檢驗檢疫報檢規定》) promulgated on 17 December 1999 and effective as from 1 January 2000, the General Administration of Quality Supervision, Inspection and Quarantine and its local inspection and quarantine branches are in charge of the inspection of imported and exported commodities nationwide and locally respectively. A filing registration administration system is implemented for the self-reporting units in the State.

On 7 March 2013, the Group obtained the Self-reporting Unit Record Registration Certificate.

VII. FOREIGN EXCHANGE

1. Foreign exchange

According to the Regulation of the People's Republic of China on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) (promulgated on 29 January 1996 and revised on 14 January 1997 and 5 August 2008) and various regulations promulgated by State Administration of Foreign Exchange and other Chinese regulatory departments, Renminbi can be converted freely only for current account items, including dividend distribution, interest payment and foreign exchange transactions relating to trade and service. Regarding capital account items such as direct equity investment, loan and recouping of investment, conversion of Renminbi into foreign currencies and outward remittance of foreign currencies from China shall be subject to approval by the State Administration of Foreign Exchange or other units authorized by the State Administration of Foreign Exchange.

The Regulations on the Administration of the Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), which were promulgated on 20 June 1996 and came into effect on 1 July 1996, provide that foreign exchange receipts under the current

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account of foreign-funded enterprises may be retained to the fullest extent specified by the foreign exchange bureau. Any portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap center.

According to the Circular of State Administration of Foreign Exchange on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) promulgated on 13 February 2015 and effective as from 1 June 2015, the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment are cancelled. Investors shall register with banks to have the registration of foreign exchange under direct domestic investment and direct overseas investment.

According to the Circular of State Administration of Foreign Exchange on the Reform of Administrative Approach for the Settlement of Foreign Exchange Capital Funds of Foreign-funded Enterprises (Hui Fa [2015] No. 19) (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》(匯發[2015]19號)) promulgated on 30 March 2015 and effective as from 1 June 2015, the voluntary settlement of foreign exchange capital funds for foreign-funded enterprises will be implemented. The foreign exchange capital funds in a foreign-funded enterprise's capital account, which have been recognized by a foreign exchange bureau as the interests of monetary capital contributions or registered with a bank as monetary capital contributions, can be settled in banks according to such enterprise's actual business operation requirements. The provisional percentage for the voluntary settlement of foreign exchange capital funds for foreign-funded enterprises is 100%.

According to the Circular of State Administration of Foreign Exchange on Reforming and Regulating the Management Policies Regarding the Settlement under Capital Account (Hui Fa [2016] No. 16) (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》(匯發[2016]16號)) promulgated on 9 June 2016 and effective as from the same date, the reform on the management of the settlement of foreign debt capital of enterprises is promoted nationwide. Meanwhile, the voluntary settlement and payment management of foreign exchange income under the capital items is standardized. Foreign debt capital of domestic enterprises (including China-affiliated enterprises and foreign-funded enterprises and excluding financial institutions) may be settled in a voluntary manner. The provisional percentage for the voluntary settlement of foreign exchange income under the capital items for domestic institutions is 100%.

2. Dividend distribution

According to the Company Law of the People's Republic of China (《中華人民共和國公司法》) (promulgated on 29 December 1993 and revised on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013), Law of the People's Republic of China on Foreign-Funded Enterprises (《中華人民共和國外資企業法》) (promulgated on 12 April 1986 and revised on 31 October 2000 and 3 September 2016) and Rules for the Implementation of Law of the People's Republic of China on Foreign-Funded Enterprises (《中華人民共和國外資企業法實施細則》) (promulgated on 12 December 1990 and revised on 12 April 2001 and

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19 February 2014), foreign-funded enterprises shall establish financial accounting systems and file with local financial and tax authorities in accordance with the laws and regulations of the PRC and the requirements of financial authorities. Foreign-funded enterprises shall make allocations to a reserve fund and a bonus and welfare fund for staff and workers from their profits after paying income tax in accordance with China's tax laws. The rate of allocations to the reserve fund shall not be lower than 10% of the after-tax profits. Further allocations may not be made once the cumulative amount of allocations is equivalent to 50% of the registered capital of the enterprise. The rate of allocations to the bonus and welfare fund for staff and workers shall be determined by the foreign-funded enterprise. Foreign-funded enterprises shall not distribute profits until the losses from preceding accounting years have been made up. The undistributed profits of the preceding accounting years may be allocated together with the profits available for distribution in this accounting year.

According to The Circular of the State Administration of Foreign Exchange on Further Promoting the Foreign Exchange Administration Reform and Improving the Authenticity & Compliance Checks (Hui Fa [2017] No. 3) (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》(匯發[2017]3號)) promulgated on 26 January 2017 and effective as from the same date, policies on managing the remittance of profits from foreign exchange of direct investment will be further implemented and improved. The banks which handle profit remittance business of more than the equivalent of USD50,000 (excluding) for domestic institutions, shall examine, according to the principle of transaction authenticity, the profit distribution resolution of the board of directors (or the profit distribution resolution of all partners) that is related to this profit remittance, the original copy of tax filing form, the audited financial statements, and shall affix endorsements on the original copy of the relevant tax filing form to indicate the actual amount of the profit remittance and the date of remittance. Domestic institutions should make up the losses of previous years before the profit remittance pursuant to the laws and regulations.

3. Equity incentive plan

According to the Notice of the State Administration of Foreign Exchange on Issues concerning the Foreign Exchange Administration of Domestic Individuals' Participation in Equity Incentive Plans of Overseas Listed Companies (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》(匯發[2012]7號)) (promulgated on and effective as from 15 February 2012) (Hui Fa [2012] No. 7) ("Document No. 7"), the directors, supervisors, senior executives and other employees (including Chinese citizens and foreign individuals) of domestic subsidiaries of an overseas listed company who participate in the equity incentive plan of the overseas listed company shall, after the overseas company is listed, authorize one domestic agency to uniformly process relevant matters, such as foreign exchange registration, account opening, capital transfer and exchange.

According to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Companies (Hui Fa [2014] No.37) (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》(匯發[2014]37

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號)) promulgated on 4 July 2014 and became effective on the same day, where a non-listed special purpose company uses its own equity interests or options to grant equity incentives to the directors, supervisors and senior management of a domestic enterprise under its direct or indirect control, as well as other employees in employment or labour relationships with the aforesaid company, relevant domestic resident individuals may, before exercising their rights, apply for foreign exchange registration of the special purpose company.

Given that the issuer is not a special purpose company, Circular 7 applies. The issuer will handle matters such as foreign exchange registration, account opening and funds transfers and remittance after Listing.

VIII. TAXATION

1. Enterprise income tax

According to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (the “**PRC Enterprise Income Tax Law**”) (promulgated on 16 March 2007 and revised on 24 February 2017) and Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (the “**Implementation Regulation of the PRC Enterprise Income Tax Law**”) (promulgated on 6 December 2007 and effective as from 1 January 2008), the tax rate for all enterprises (including foreign-funded enterprises) shall be 25.0% and the existing provisions on tax exemption, reduction and preference for foreign-funded enterprises shall be cancelled.

According to the PRC Enterprise Income Tax Law, enterprises are classified as resident and non-resident enterprises. According to the PRC Enterprise Income Tax Law and the Implementation Regulation of the PRC Enterprise Income Tax Law, in addition to enterprises established in China, enterprises which are established overseas but have an “actual management institution” in China are also regarded as “resident enterprises” and shall pay enterprise income tax as per a rate of 25.0% for their global incomes. According to the Implementation Regulation of the PRC Enterprise Income Tax Law, “actual management institution” refers to an institution that conducts substantial and all-round management and control over the production, operations, personnel, finance, property, etc. of the enterprise. As the management of the Group are now mainly in China and are expected to continue staying in China in the future, whether the Group will be regarded as a “resident enterprise” cannot be determined yet. In addition, the PRC Enterprise Income Tax Law specifies that dividend incomes among “qualified resident enterprises” are tax-exempt and the “qualified resident enterprises” as referred to in the Implementation Regulation of the PRC Enterprise Income Tax Law are “direct investment” enterprises. However, if the Group is regarded as a Chinese “resident enterprise”, it is uncertain whether the dividends paid by the subsidiaries to the Group can be exempted from tax. If the Group is regarded as a Chinese “resident enterprise” and has to pay tax for the dividends paid to the investors of the non-Chinese resident enterprise, the dividends that can be distributed by the Group to the shareholders will be greatly reduced.

Moreover, according to the Implementation Regulation of the PRC Enterprise Income Tax Law, after 1 January 2008, regarding dividends paid to the investors of a non-Chinese resident enterprise, if the investors do not have operation activities or set up any institution or office

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in China, or have operation activities and set up institutions or offices in China but their relevant incomes are actually unrelated to the institutions or offices and relevant dividends are generated in China, an enterprise income tax shall be generally paid as per a rate of 10%. The income tax applicable to the dividend may be reduced according to the tax treaty concluded between China and the jurisdictional district of non-Chinese shareholders of the Company.

2. A non-resident enterprise who indirectly transfers the equity and other property of a Chinese resident enterprise shall pay an enterprise income tax

According to the Announcement on Several Issues concerning the Enterprise Income Tax on Income from the Indirect Transfer of Property by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (promulgated by the State Administration of Taxation on 3 February 2015 and effective as from the same day) (2015 Document No. 7), unless for reasonable business purposes, a non-resident enterprise which indirectly transfers the equity and other properties of a Chinese resident enterprise and evades the obligation to pay an enterprise income tax shall redefine the indirect transfer and confirm it as direct transfer of equity and other properties of a Chinese resident enterprise according to the PRC Enterprise Income Tax Law, and pay an enterprise income tax according to the PRC Enterprise Income Tax Law.

3. Value-added Tax

According to the Provisional Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》) (promulgated on 13 December 1993 and revised on 5 November 2008 and 6 February 2016) and Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) (promulgated on 15 December 2008 and revised on 28 October 2011), companies or individuals engaged in product sale or import of goods, or providing specific services in China shall generally pay a value-added tax for the increased values generated during the course of production or sale or in the period of service provision. Unless otherwise specified, those who sell or import goods and provide processing, repair and replacement services in China shall pay a value-added tax as per a rate of 17.0%.

IX. ENVIRONMENTAL PROTECTION AND SEWAGE EMISSION

According to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) (the “**Environmental Protection Law**”) (promulgated on 26 December 1989 and revised on 24 April 2014), any enterprise engaged in production operations shall observe the Environmental Protection Law, and the Ministry of Environmental Protection of the People's Republic of China (the “**Ministry of Environmental Protection**”) shall establish national standards for environment quality, and the governments of provinces, autonomous regions and municipalities directly under the Central Government may establish their local standards for environment quality for items not specified in the national standards for environment quality and shall file them with the competent department of environmental

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protection administration under the State Council. The Environmental Protection Law specifies that companies that discharge environmental pollutants or other hazardous substances shall include environmental protection measures in their operations and establish a responsibility system for environmental protection. According to the Environmental Protection Law, these companies shall adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

According to the Law of the People's Republic of China on Environmental Impact Assessment (《中華人民共和國環境影響評價法》) (promulgated on 28 October 2002 and revised on 2 July 2016), the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) (promulgated on 29 November 1998, revised on 16 July 2017 and effective as from 1 October 2017) and the Classification Management Directory of the Construction Project Environmental Impact (《建設項目環境影響評價分類管理名錄》) (promulgated on 2 September 2008 and revised on 9 April 2015 and promulgated on 29 June 2017 and revised and effective as from 1 September 2017), the Chinese government practices the construction project environmental impact evaluation system and manages environmental impact assessment according to the environmental impacts. The construction enterprise shall submit the report of environmental impacts to relevant environmental protection authority for approval. Without the approval of relevant environmental protection authority, no enterprise shall carry out its construction project.

According to the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》) (promulgated on 11 May 1984 and effective as from 15 May 1996 and 28 February 2008 and promulgated on 27 June 2017 and revised and effective as from 1 January 2018), environmental impact assessment shall be conducted legally to new construction, expansion or reconstruction projects or construction projects and other marine facilities which directly or indirectly discharge pollutants into water. Enterprises, public institutions and other business entities which directly or indirectly discharge industrial waste water and medical sewage to water or which are required to obtain pollutant discharge licenses before discharging waste water and sewage water must obtain pollutant discharge licenses; and entities operating facilities for the concentrated treatment of urban sewage must also obtain pollutant discharge licenses. Pollutant discharge licenses shall specify requirements including categories, concentrations, gross quantities and discharging directions of the pollutants discharged to water.

According to the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) promulgated on 5 September 1987 and revised on 29 August 1995, 29 April 2000 and 29 August 2015, when building projects that have an impact on atmospheric environment, enterprises, public institutions, and other business entities shall conduct environmental impact assessments and publish the environmental impact assessment documents according to the law; when discharging pollutants to the atmosphere, they shall conform to the atmospheric pollutant discharge standards and abide by the total quantity control requirements for the discharge of key atmospheric pollutants. Enterprises and public

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institutions discharging industrial waste gases or the toxic or hazardous atmospheric pollutants listed in the catalogue of toxic or hazardous atmospheric pollutants, business entities using coal heat sources for central heating facilities, and other entities subject to pollutant discharging licensing administration shall obtain pollutant discharge licenses. The specific measures and implementation steps for pollutant discharge licensing shall be determined by the State Council. Atmospheric pollutant discharge outlets shall be set according to the laws, regulations, and the provisions of the environmental protection administrative department under the State Council.

According to the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) (promulgated on 30 October 1995 and revised on 29 December 2004, 29 June 2013, 24 April 2015 and 7 November 2016), entities that discharge industrial solid waste shall set up and optimize the liability system for the prevention and control of environmental pollution, and take measures to prevent environmental pollution by industrial solid waste discharged. The State has now set up a system of report and registration for industrial solid waste. Entities that discharge industrial solid waste shall, according to laws and regulations, submit information about the type, quantity, flow, storage and treatment of the relevant solid wastes to the competent administrative department for environmental protection of the local people's government above the county level in the places where they are located, and any material changes to such matters shall be reported promptly.

According to the Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise (《中華人民共和國環境噪聲污染防治法》) (promulgated on 29 October 1996 and effective as from 1 March 1997), every project under construction, expansion or renovation that discharges noise pollution must conform to the regulations of the State governing environmental protection. Any industrial enterprise that produces noise pollution due to the implementation of its industrial production must report to the local environmental protection authority the types, quantity and noise level about the noise pollution produced. The said enterprise shall also provide some information relating to the prevention and control of noise pollution. If the noise emitted by the enterprise exceeds the environmental noise emission limits set by the State or local authority, the said enterprise shall pay fees for excessive emission of such pollution.

According to the Implementation Plan for the Permit System of Pollutants Discharge Controls (《控制污染物排放許可制實施方案》) which was promulgated and came into effect on 10 November 2016 and the Interim Provisions on Management of Pollutants Discharge Permits (《排污許可證管理暫行規定》) which was promulgated and came into effect on 23 December 2016, the management of pollutants discharge permits shall be imposed on the enterprises and institutions that discharge industrial waste gas or toxic and hazardous air pollutants as prescribed by the government, the production and operation entities that supply coal-fired heating for centralized heating facilities, the enterprises and institutions that discharge industrial waste water and medical sewage directly or indirectly into water, the operation entities of urban or industrial centralized sewage treatment facilities and other entities that discharge pollutants and shall be subject to the management of pollutants discharge

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permit by laws. The Ministry of Environmental Protection will formulate and publish the management list of pollutants discharge permits by industries and push forward the management of pollutants discharge permits by batches and step by step. The entities that discharge pollutants shall discharge pollutants with permits within the time limits as prescribed in the list. Pollutants Discharge without permits and pollutants discharge not in compliance with permits are prohibited. It is expected to complete the verification and issuance of pollutants discharge permits covering all stationary pollution sources by 2020.

According to the Law of the People's Republic of China on Promoting Clean Production (《中華人民共和國清潔生產促進法》) (promulgated on 29 June 2002 and revised on 29 February 2012), the enterprises may, on voluntary basis, entrust, according to the provisions of the State concerning the authentication of environmental management system, to the authentication institutions authorized by the authentication ratification and supervision authorities of the State Council for authentication so as to improve their clean production. Enterprises shall monitor the consumption of resources and the generation of wastes in the production and rendering of services, and where it is necessary, shall carry out clean production checks over their production and services. For the projects of new building, rebuilding and expanded building, appraisals shall be made with regard to the effects upon the environment, analytical argumentations shall be made about the use of raw materials, consumption of resources, comprehensive utilization of resources, and the generation and disposal of pollutants, etc., and priority shall be placed on the adoption of clean production technologies, techniques and equipment that have high use rate of resources and generating few pollutants.

According to The Regulation on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) which was promulgated on 2 October 2013 and came into effect on 1 January 2014 and The Administrative Measures on Licencing of the Discharge of Urban Sewage into the Drainage Network (《城鎮污水排入排水管網許可管理辦法》) which was promulgated on 22 January 2015 and came into effect on 1 March 2015, within the coverage of urban drainage facilities, enterprises, public institutions and individual industrial and commercial households engaging in industry, construction, catering, medical services and other activities (the **"Drainage Entities"**) should apply for a license for discharging sewage into the drainage network (the **"Drainage License"**) and discharge the sewage into the urban drainage facilities. Without the Drainage License, the Drainage Entities are not permitted to discharge the sewage into the urban drainage facilities. Urban residents that discharge domestic sewage are not required to apply for the Drainage License. Sewage shall not be discharged into rainwater pipelines in the areas that have separate discharge of rainwater and sewage. The housing and urban-rural development departments shall direct and oversee the drainage licensing work.

X. LABOR AND SAFETY

According to the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) (promulgated on 5 July 1994 and revised on 27 August 2009) and the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) (promulgated on 29 June 2007 and revised on 28 December 2012) and the Regulation on the Implementation of the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條

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例》) (promulgated on and effective as from 18 September 2008), a written labor contract shall be concluded within one month from the day when the employee starts to work; if the employer fails to conclude the written labor contract with the employee after the employee has worked for not less than one month but less than one year, the employer shall pay twice salary to the said employee. Labor contracts are classified into fix-term labor contracts, labor contracts without a fixed term, and labor contracts that set the completion of specific tasks as the term to end contracts. If the employee has already worked for the employer for 10 full years consecutively, or the labor contract is to be renewed after two fixed-term labor contracts have been concluded consecutively, a labor contract without a fixed term shall be concluded.

According to the Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》) (promulgated on 30 August 2007 and revised on 24 April 2015), workers seeking employment shall not be subject to discrimination based on factors such as ethnicity, race, gender, religious belief etc. The employer shall not refuse to recruit women or increase the thresholds for recruitment of women under the excuse of gender; or stipulate in the employment contract any content which restricts female employees from getting married or bearing child. Employers should provide suitable care to workers from minority ethnic groups in accordance with the laws, and not discriminate against the disabled. The employer shall not refuse to recruit any person under the excuse that he is a carrier of an infectious disease, except for such jobs as prohibited to engage in by laws, administrative regulations and the health administrative departments under the State Council for an easy spread of infectious diseases might be caused during the work. In addition, an enterprise shall make a provision of the operating fund for education of employees so as to offer to workers vocational skills training and continuing education. Anyone who violates this rule may be subject to punishment by the labor administrative department.

According to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) (promulgated on 28 October 2010 and effective as from 1 July 2011), the Provisional Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) (promulgated on and effective as from 22 January 1999), the Provisional Measures for the Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) (promulgated on 14 December 1994 and enforced on 1 January 1995), the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) (promulgated on 3 April 1999 and revised on 24 March 2002), the Regulation on Work-Related Injury Insurances (《工傷保險條例》) (promulgated on 27 April 2003 and revised on 20 December 2010), and regulations on pension, medical treatment and unemployment insurance of all provinces and cities, the employer shall provide employees with social insurance premiums, which include endowment insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and housing provident fund. After the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) takes effect, if the employer fails to pay social insurance premiums on time or in full, it shall be ordered by the collecting agencies of social insurance premiums to pay or make up the premiums within the specified time limit, and shall be subject to a late payment fee of 0.05% of the outstanding amount from the maturity date calculated on a daily basis. If the employer still fails to do so, relevant administrative department may impose a fine of one to three times of the outstanding amount.

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According to the Trade Union Law of the PRC (《中華人民共和國工會法》) promulgated on 3 April 1992 and revised on 27 October 2001 and 27 August 2009, all manual or mental workers in enterprises, public institutions or state organs within the territory of China who rely on wages or salaries as their main source of incomes, irrespective of their nationality, race, sex, occupation, religious belief or educational background, have the right to join and organize trade unions according to laws. A trade union committee at the grass-root level shall be set up in an enterprise, a public institution or a state organ with over twenty-five members.

XI. PROPERTIES

According to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated on 25 June 1986 and revised on 29 December 1988, 29 August 1998 and 28 August 2004 and the Regulations for the Implementation of the Land Administration Law of the PRC (《中華人民共和國土地管理法實施條例》) promulgated on 27 December 1998 and revised on 8 January 2011 and 29 July 2014, land in urban districts is owned by the whole people, that is, by the state and the national government legally implements a land registration and certification system and a land use control system.

According to the Provisional Regulations of the PRC Concerning the Grant and Transfer of the Right to Use State-owned Land in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) promulgated on 19 May 1990 and became effective on the same day, any company, enterprise, other organisation and individual within or outside of the PRC may, unless otherwise provided by law, obtain land use rights and engage in land development, utilisation and management in accordance with the provisions of these regulations. Land users shall enter into land use right grant contracts with land administration departments, and go through the registration, obtain land use certificates and accordingly land use rights in accordance with the relevant provisions after all land premium is paid. Land use rights shall be transferred by signing transfer contracts.

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) promulgated on 28 October 2007 and revised on 24 April 2015, the Construction Law of the PRC (《中華人民共和國建築法》) promulgated on 1 November 1997 and revised on 22 April 2011, the Quality Management of Construction Projects (《建設工程質量管理條例》) promulgated on 30 January 2000 and became effective on the same day, the Measures for Building Registration (《房屋登記辦法》) promulgated 15 February 2008 and became effective on 1 July 2008, and the Provisions on Acceptance Inspection Upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated on 2 December 2013 and became effective on the same day, building construction shall meet the requirements of urban planning, the quality and safety of construction projects shall meet the national safety standards, and building ownership certificates shall be handled according to regulations upon obtaining certificates and permits for the construction projects such as state-owned land use rights certificates, construction land planning permits, construction work planning permits and construction permits and passing the acceptance inspection by competent authorities.

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According to the Administrative Measures on the Lease of Commodity Housing (《商品房屋租賃管理辦法》) promulgated on 1 December 2010 and becoming effective on 1 February 2011, the parties to a housing tenancy shall go through the housing tenancy registration and filing process with the competent construction (real estate) departments of the municipalities directly under the Central Government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed.

XII. FOREIGN M&A

According to the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (Order No. 10) (《關於外國投資者併購境內企業的規定》(10號令)) (promulgated on 8 August 2006 and revised on 22 June 2009), a foreign investor shall, when merging a domestic enterprise to establish a foreign-funded enterprise, apply to the approval organ for approval in accordance with the present provisions, and complete change of registration or establishment registration with the registration authority. In particular, a domestic enterprise refers to a domestic non-foreign-funded enterprise.

PTC is a foreign-funded enterprise. Therefore, our Company's acquisition of 100.0% equity of PTC held by Tsugami Japan, and Tsugami HK's subsequent acquisition of 100.0% equity of PTC held by our Company in 2013 are not foreign M&A, so the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors is not applicable, and there is no need to apply to the approval organ for approval.

XIII. APPROVAL BY REGULATOR FOR LISTING

According to the Securities Law of the People's Republic of China (《中華人民共和國證券法》) (promulgated on 29 December 1998 and revised on 28 August 2004, 27 October 2005, 29 June 2013 and 31 August 2014 respectively), enterprises in China that intend to directly or indirectly issue securities abroad or to list their securities for trading abroad shall be subject to approval by the securities regulatory authority under the State Council according to the regulations of the State Council.

Whereas the issuer is an overseas company, this listing does not need to be approved by the securities regulatory authority under CSRC.

Furthermore, according to the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), where a special purpose company is to be listed overseas, the listing shall be approved by the securities regulatory authority under the State Council. The special purpose company refers to an overseas company directly or indirectly controlled by a domestic company or Chinese natural person to realize the interests of a domestic company actually owned by the aforesaid domestic company or Chinese natural person by means of overseas listing.

Given that the issuer is not a special purpose company, the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors is not applicable, so its overseas listing does not need to be approved by the securities regulatory authority under CSRC.

HISTORY AND DEVELOPMENT

Introduction

The business of our Group can be traced back to 2003 when PTC was established as a WFOE in Pinghu, Zhejiang province, the PRC by Tsugami Japan, a long-established Japanese manufacturer of machine tools established in March 1937 and listed on the Tokyo Stock Exchange for over 50 years. PTC is our major operating subsidiary in the PRC. Since our establishment, PTC has primarily engaged in the manufacture and sales of a wide range of CNC high precision machine tools in the PRC. For further details of our business and Tsugami Japan, please refer to the sections headed “Business” and “Relationship with Controlling Shareholder” in this prospectus.

Major milestones of our Group

Our major business development and achievements are set forth below:

Milestone month/year	Event
September 2003	Establishment of PTC
June 2005	Commenced production of precision turret machines
November 2007	Commenced production of precision automatic lathes
April 2008	Obtained “The Safety Pinghu Production Business Advanced Unit 2007” award from The People’s Government of Pinghu Municipality
April 2010	Obtained “The Safety Pinghu Production Business Advanced Unit 2009” award from The People’s Government of Pinghu Municipality
November 2010	Establishment of Shinagawa Precision
February 2011	Obtained “The Industrial Production Input Advanced Unit 2010” award from CCP Pinghu Municipal Committee and The People’s Government of Pinghu Municipality
April 2011	Commenced production of precision machining centres
June 2011	Commenced production of precision thread and form rolling machines

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Milestone month/year	Event
September 2011	Commenced production of precision grinding machines
December 2011	Obtained ISO 14001 and ISO 9001 certifications
April 2012	Obtained “The Safety Pinghu Production Business Advanced Unit 2011” award from The People’s Government of Pinghu Municipality
June 2012	Establishment of Tsugami Consultants
March 2013	Obtained “Advanced Unit in Science and Technology Personnel 2012” award from CCP Working Committee and Administrative Committee of Pinghu Economic Development Zone
July 2013	Commenced in-house production of spindles, one of the major components of our CNC high precision machine tools
March 2015	Obtained “Star Enterprise” award from The People’s Government of Pinghu Municipality
December 2015	Obtained “Work Safety Standardisation Level II Enterprise (Machinery)” award from Zhejiang Administration of Work Safety
February 2016	Obtained “Star Enterprise” award from The People’s Government of Pinghu Municipality
February 2017	Obtained “Meritorious Enterprise” award from The People’s Government of Pinghu Municipality

Corporate History

Members of our Group are set out below:

Our Company

Our Company was incorporated in the Cayman Islands as a company with limited liability on 2 July 2013 with an authorised share capital of HK\$350,000 divided in 350,000 shares of HK\$1.00 par value each. On 2 July 2013, the initial member transferred the one issued Share of HK\$1.00 each in our Company to Tsugami Japan. On 27 September 2013, the Company added a Chinese name to its company name by a special resolution of the Company dated 13 September 2013. On 7 January 2014, one Share of HK\$1.00 was allotted and issued to Tsugami

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Japan as consideration for the transfer of the entire equity interest in PTC by Tsugami Japan to our Company. On 14 March 2014, our Company increased the authorised share capital to HK\$15,000,000 divided into 15,000,000 shares of HK\$1.00 par value each. On 15 May 2014, one Share was allotted and issued to Tsugami Japan in consideration of USD5,000,000 paid by Tsugami Japan.

Following completion of our Reorganisation, our Company became the holding company of our Group with our business primarily conducted through PTC. On 4 September 2017, the authorised share capital of our Company was increased to HK\$1,000,000,000 divided in 1,000,000,000 ordinary shares of HK\$1.00 each.

Tsugami HK

Tsugami HK was incorporated in Hong Kong on 24 September 2013. On the same date, one share was allotted and issued to our Company.

On 8 January 2014, one share of Tsugami HK was allotted and issued to our Company as consideration for the transfer of the entire equity interest in PTC from our Company to Tsugami HK. On 16 October 2014, one share of Tsugami HK was allotted and issued to our Company in consideration of HK\$37.3 million (equivalent to US\$4.8 million) paid by our Company in May 2014. As a result of the said allotment, the total share capital of Tsugami HK was increased to HK\$490,718,111.98.

PTC

PTC was established by Tsugami Japan as a WFOE in Pinghu, Zhejiang province, the PRC on 11 September 2003 with an initial registered capital of US\$1.7 million. As at 1 April 2013, the commencement date of the Track Record Period, PTC had a registered capital of US\$38.6 million, all of which was contributed by Tsugami Japan. PTC is our principal operating subsidiary in the PRC, which primarily engages in the manufacture and sales of precision machine tools and certain parts and components, and provision of relevant aftersales services. As at the Latest Practicable Date, PTC had representative offices in 3 different locations in the PRC, namely, Ningbo, Dalian and Xi'an.

By a sole shareholder resolution dated 14 March 2014, the registered capital of PTC was increased by US\$4.7 million from US\$38.6 million to US\$43.3 million, all of which was contributed by Tsugami HK. Such capital contribution was completed in May 2014.

Following completion of our Reorganisation, Tsugami HK became the sole direct shareholder of PTC.

Shinagawa Precision

Shinagawa Precision was established by PTC as a company with limited liability in Pinghu, Zhejiang, the PRC on 24 November 2010. As at 1 April 2013, the commencement date of the Track Record Period, Shinagawa Precision had a registered capital of RMB35.0 million, all of which was contributed by PTC. Shinagawa Precision currently engages in iron and metal casting, manufacturing and processing of parts and components for metals machinery.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

As at the Latest Practicable Date, the registered capital of Shinagawa Precision was RMB35.0 million.

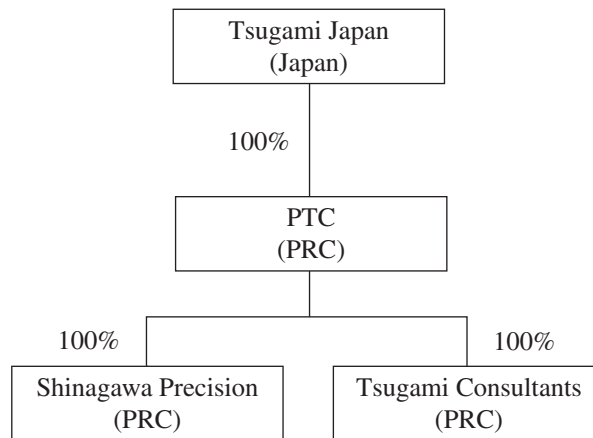
Tsugami Consultants

Tsugami Consultants was established by PTC as a company with limited liability in Pinghu, Zhejiang, the PRC on 18 June 2012. As at 1 April 2013, the commencement date of the Track Record Period, Tsugami Consultants had a registered capital of RMB1.0 million, all of which was contributed by PTC. Tsugami Consultants currently engages in commercial information consulting. As at the Latest Practicable Date, Tsugami Consultants had representative offices and branch offices in 12 different locations in the PRC, namely, Shenzhen, Wuhu, Dongguan, Qingdao, Shanghai, Shenyang, Wuxi, Wuhan, Chongqing, Tianjing, Xiamen and Foshan.

As at the Latest Practicable Date, the registered capital of Tsugami Consultants was RMB1.0 million.

REORGANISATION

In preparation for the Listing, our Group underwent the Reorganisation. The following chart sets forth the corporate and shareholding structure of our Group prior to the Reorganisation:



The Reorganisation involved the following steps:

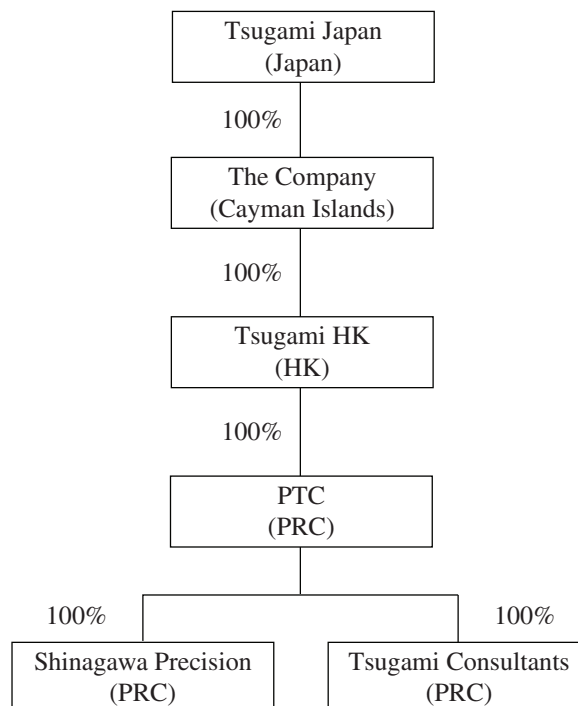
- (a) Our Company was incorporated in the Cayman Islands on 2 July 2013 by Tsugami Japan as the sole Shareholder.
- (b) Tsugami HK was incorporated in Hong Kong on 24 September 2013 by the Company as the sole shareholder.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (c) By an equity transfer agreement entered into between Tsugami Japan and the Company dated 12 December 2013, the entire equity interest in PTC was transferred by Tsugami Japan, as seller, to the Company, as purchaser, at the consideration of US\$58,422,640.25, which was settled by the Company issuing one Share to Tsugami Japan on 7 January 2014 and such transfer was then properly and legally completed and settled. The consideration was determined and mutually agreed by Tsugami Japan and the Company after taking into account, among other things, the valuation of the net assets value of PTC as at 28 February 2013.
- (d) By an equity transfer agreement entered into between the Company and Tsugami HK dated 8 January 2014, the entire equity interest in PTC was transferred by the Company, as seller, to Tsugami HK, as purchaser, at the consideration of US\$58,422,640.25, which was settled by Tsugami HK issuing one share to the Company on 8 January 2014 and such transfer was then properly and legally completed and settled. The consideration was determined and mutually agreed by the Company and Tsugami HK after taking into account, among other things, (i) the valuation of the net assets value of PTC as at 28 February 2013; and (ii) the consideration of the equity transfer agreement entered into between Tsugami Japan and the Company dated 12 December 2013.

Upon completion of the aforesaid steps, PTC became a wholly-owned subsidiary of Tsugami HK and our Company became the holding company of our Group.

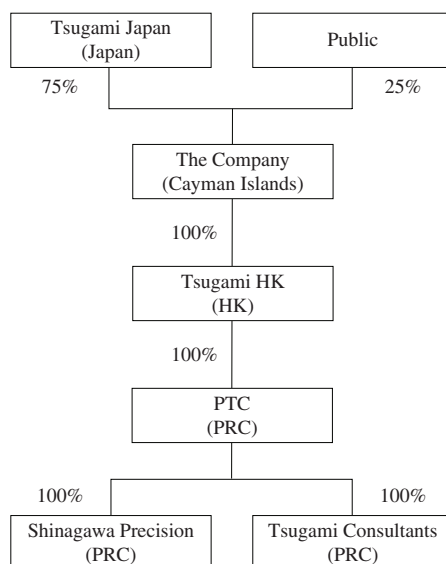
The following chart sets out our shareholding structure immediately after the Reorganisation but before completion of the Capitalisation Issue and the Global Offering:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

SHAREHOLDING STRUCTURE UPON COMPLETION OF THE GLOBAL OFFERING

The following chart sets forth our corporate and shareholding structure immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised):



PRE-IPO SHARE OPTION SCHEME

In recognition of the contribution of and to attract, retain and motivate our employees and executive officers, we introduced the Pre-IPO Share Option Scheme to grant the Pre-IPO Share Options as incentive or reward and to attract, retain and motivate them to contribute to our Group and/or strive for future development and expansion of our Group. A total of 55 eligible participants have been granted the Pre-IPO Share Options, eight among whom had left our Group and have ceased to be eligible employees under the Pre-IPO Share Option Scheme. As such, the Pre-IPO Share Options granted to them for a total of 756,000 Shares have lapsed. As at the Latest Practicable Date, the Pre-IPO Share Options for a total of 7,870,000 Shares remained outstanding. For further details, please refer to the section headed “Statutory and General Information – 8. Pre-IPO Share Option Scheme” in Appendix V to this prospectus.

SALE OF THE SALE SHARES BY THE SELLING SHAREHOLDER

As part of the Global Offering, the Selling Shareholder will offer 30,000,000 Sale Shares for sale at the Offer Price under the International Offering.

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

On 8 August 2006, six PRC regulatory agencies, including MOFCOM and CSRC, promulgated the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on 8 September 2006 and amended on 22 June 2009. The M&A Rules, among other things, provides that a foreign investor seeking acquisition of the equity interest in a non-foreign-invested PRC enterprise, or purchasing and operating the assets of that enterprise by establishing a foreign-invested enterprise in the PRC, shall obtain the approval of MOFCOM or its counterparts at provincial level.

As advised by our PRC Legal Advisers, the onshore reorganisation is not subject to the examination and approval of the MOFCOM, as PTC has been a foreign-invested enterprise since its incorporation in 2003 and has never been involved in any merger and acquisition regulated under the M&A Rules. Thus, such acquisition is subject to Certain Provisions on Changes in Equity Interests in Foreign Investment Enterprises (《外商投資企業投資者股權變更的若干規定》) instead of the M&A Rules. In addition, our PRC Legal Advisers are of the view that there is no need to obtain consents or approvals from CSRC for the Listing. Except for the approvals that have already been obtained, there is no need to obtain other consents or approvals from other PRC government authorities to implement our Reorganisation and our Reorganisation complies with applicable PRC laws and regulations.

OVERVIEW

We are an established foreign-owned CNC high precision machine tool manufacturer in the PRC. According to Frost & Sullivan, we ranked fourth in the CNC high precision machine tool industry in the PRC in terms of revenue in 2016, and were the largest foreign-owned CNC high precision machine tool manufacturer in the PRC in terms of revenue in 2016. Further, according to Frost & Sullivan, we ranked first in the PRC precision automatic lathe market in terms of revenue in 2016 with a market share of approximately 34.8%, where the precision automatic lathe market accounted for approximately 1.4% of the overall PRC CNC high precision machine tool market in terms of sales volume in 2016. The PRC CNC high precision machine tool market is led by a small number of major domestic players with the rest of the market highly fragmented. The PRC CNC high precision machine tool market accounted for approximately 41.7% of the total PRC machine tool industry in terms of revenue in 2016.

Established by Tsugami Japan, a Japanese manufacturer of machine tools established in March 1937 and has been listed on the Tokyo Stock Exchange for over 50 years, we started our business in the PRC in 2003. Throughout the years, we have primarily engaged in the manufacture and sales of a wide range of CNC high precision machine tools under the TSUGAMI brand, which has been widely recognised by manufacturers engaged in various industries. Our five major CNC high precision machine tools are precision automatic lathes, precision turret machines, precision machining centres, precision grinding machines and precision thread and form rolling machines.

We manufacture all our CNC high precision machine tools at our Pinghu Production Plants, which currently consist of four major production plants. Originated from Tsugami Japan, we have been licensing the Technology from Tsugami Japan to manufacture and provide certain aftersales services for our CNC high precision machine tools. We offer CNC high precision machine tools that are of standardised design and specifications to our customers. With our customisation and development capabilities, we are also able to provide machine tool solutions to our customers and make various specifications and/or customisations on our CNC high precision machine tools by, for example, selecting or developing the cutting tools depending on the metals to be processed, and developing parts and components and software for application uses of our CNC high precision machine tools according to the operational needs of our customers and/or end customers.

We primarily sell our CNC high precision machine tools in the PRC via our established sales network to end customers engaged in various industries, including IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery. We also sell CNC high precision machine tools to certain of our major end customers in the PRC by way of direct sales. For the three years ended 31 March 2015, 2016 and 2017, sales to our distributors in the PRC accounted for approximately 41.5%, 51.8% and 60.8%, respectively, and sales to our direct sale customers in the PRC accounted for approximately 31.3%, 5.2% and 2.9% of our revenue for the same periods, respectively.

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Since June 2016, we have also been selling our CNC high precision machine tools to Taiwan through our Taiwanese distributor. Further, in view of our mass production capabilities at our Pinghu Production Plants, the Tsugami Japan Group also procures a portion of our CNC high precision machine tools to sell to its customers based in the Other Markets, with or without further customisations. For the three years ended 31 March 2015, 2016 and 2017, approximately 72.8%, 56.9% and 63.7% of our revenue was derived from our PRC sales, respectively, and 27.2%, 43.1% and 36.3% of our revenue was derived from our overseas sales, respectively. As at 31 March 2017, we had more than four years of business relationship with all of our top five customers. For the three years ended 31 March 2015, 2016 and 2017, sales to our top five customers accounted for approximately 56.7%, 60.4% and 56.5% of our total revenue for the same periods, respectively.

During the Track Record Period, we purchased certain principal parts and components, including CNC system panels manufactured by the CNC System Panel Manufacturer, from Tsugami Japan to manufacture our CNC high precision machine tools. Nevertheless, we have developed and manufactured certain principal parts and components and have also gradually increased our purchases from domestic suppliers at relatively competitive pricing to reduce our overseas procurement from Tsugami Japan. Further, we have directly procured a portion of our CNC system panels from the CNC System Panel PRC Supplier instead of from Tsugami Japan since December 2016. As at 31 March 2017, we had more than six years of business relationship with most of our top five suppliers. For the three years ended 31 March 2015, 2016 and 2017, purchases from our top five suppliers accounted for approximately 47.1%, 41.6% and 47.8% of our total purchases for the same periods, respectively.

For the three years ended 31 March 2015, 2016 and 2017, we recorded a total revenue of approximately RMB2,057.7 million, RMB1,357.5 million and RMB1,636.3 million, respectively. Our profit for the three years ended 31 March 2015, 2016 and 2017 was approximately RMB178.3 million, RMB55.8 million and RMB112.6 million, respectively. Our revenue and profit were relatively higher for the year ended 31 March 2015, primarily due to our sales to the Relevant Manufacturers and to our customers in the PRC for end customers primarily engaged in the IT and electronic product and automobile industries. For more details, please refer to the section headed “Financial Information” in this prospectus.

COMPETITIVE STRENGTHS

We believe our success and potential and future growth are attributable to the following competitive strengths:

An established foreign-owned CNC high precision machine tool manufacturer in the PRC

We are an established foreign-owned CNC high precision machine tool manufacturer in the PRC. According to Frost & Sullivan, we ranked fourth in the CNC high precision machine tool industry in the PRC in terms of revenue in 2016, and were the largest foreign-owned CNC high precision machine tool manufacturer in the PRC in terms of revenue in 2016. Further, according to Frost & Sullivan, we ranked first in the PRC precision automatic lathe market in

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terms of revenue in 2016, with a market share of approximately 34.8%. The PRC CNC high precision machine tool market is led by a small number of major domestic players with the rest of the market highly fragmented. The PRC CNC high precision machine tool market accounted for approximately 41.7% of the total PRC machine tool industry in terms of revenue in 2016.

Originated from Tsugami Japan, we currently manufacture and sell CNC high precision machine tools under the TSUGAMI brand, which has been widely recognised by manufacturers engaged in various industries, including IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery. We believe that, with our strong industrial expertise and brand reputation accumulated throughout the years and our customisation and development capabilities and stringent quality control, we have established our market position and maintained a stable and loyal customer base in the CNC high precision machine tool industry in the PRC.

According to Frost & Sullivan, the revenue and sales volume of the CNC high precision machine tool industry in the PRC reached approximately RMB118.5 billion and 431,300 units in 2016, with a CAGR of approximately 4.3% and 6.0% from 2011 to 2016, respectively. We believe that our current market position has allowed us to enjoy the growth of the PRC CNC high precision machine tool industry.

Established sales network and strong customer base in the PRC

We are widely recognised by our customers and end customers for the high precision and quality of our CNC machine tools. We primarily sell our CNC high precision machine tools in the PRC via our distributors to end customers. Our Directors believe that by establishing sales network in the PRC through distributors, we do not need to bear substantial costs in relation to sales and marketing and we are able to market our CNC high precision machine tools to a broader range of end customers in terms of geographic regions and industrial application uses with relatively competitive pricing. Our established sales network currently focuses on the geographical regions of eastern, southern, northern and northeastern China as most of end customers engaged in the manufacturing industries are based in these regions. As at 31 March 2017, we had representative and branch offices respectively located in Shanghai, Dongguan, Qingdao, Wuxi, Wuhan, Chongqing, Shenzhen, Tianjin, Dalian, Shenyang, Ningbo, Wuhu, Xi'an, Xiamen and Foshan in the PRC to liaise with our customers and facilitate our sales and customer service team to provide aftersales services and technical support to our customers and end customers. Our branch offices in Dongguan and Wuxi also set up showrooms to showcase our CNC high precision machine tools.

Further, we believe that one of our strengths is our ability to secure and maintain long-term and stable business relationship with our major customers. As at 31 March 2017, we had more than four years of business relationship with all of our top five customers. We communicate with and obtain information and feedback from our customers and end customers to understand their business needs and market trends, which we believe, have helped us to improve our existing machine tools and develop new machine tools. We also believe that our effective aftersales services and strong technical know-how have helped us to maintain strong business relationship with our customers and end customers and capture additional sales opportunities.

Quality and effective customer services

Although we primarily sell our CNC high precision machine tools to end customers in the PRC via our distributors, we strive to ensure quality and effective aftersales services and technical support are provided to end customers to their satisfaction. As at 31 March 2017, we had a team of 130 customer service personnel in our sales and customer service team to provide aftersales services. With the sales experience and knowledge of our CNC high precision machine tools and their application uses, our customer service personnel are able to provide preliminary analysis or solutions to end customers in respect to their issues encountered. Further, leveraging our established sales network with our representative and branch offices in 15 different locations in the PRC as liaising points, we strive to send our customer service personnel to end customers to conduct on-site examination and repair work within eight hours upon receiving enquiries from them.

Our customer service personnel typically attend end customers' production sites after the delivery of our CNC high precision machine tools to provide aftersales services and trainings to them within one week upon receiving requests from our customers. We also provide training to our distributors to enhance their technical know-how in dealing with minor issues encountered by end customers, and provide training to end customers in relation to the operation, usage, troubleshooting, maintenance and safety issues of our CNC high precision machine tools sold to them. We believe that such training can help end customers to better understand and minimise the possibility of misuse and malfunctions of our CNC high precision machine tools, which in turn, would reduce and lower their costs of unnecessary repair services. We believe our quality and effective customer service is one of our key strengths, which we believe, distinguishes us from our competitors.

Strong and stable relationship with quality suppliers to achieve mass production

We have established strong and stable relationship with our suppliers. As at 31 March 2017, we had more than six years of relationship with most of our top five suppliers. During the Track Record Period, we procured certain principal parts and components from Tsugami Japan to manufacture our CNC high precision machine tools. Nevertheless, we have gradually increased our purchases from domestic suppliers at relatively competitive pricing to reduce our overseas procurement from Tsugami Japan. In addition, our major suppliers for production machinery and equipment are also global established industrial players. We believe that our strong and stable relationship with our key suppliers together with our advanced production technology and techniques and customisation and development capabilities, have enabled us to achieve mass production for our CNC high precision machine tools, which in turn, have enabled us to control our production costs and increase our gross profit margin so that we can offer competitive pricing among our competitors in the PRC CNC high precision machine tool industry.

Advanced production technology, strong customisation and development capabilities and stringent production process and quality control

Originated from Tsugami Japan, we have been licensing the Technology from Tsugami Japan to manufacture our CNC high precision machine tools. With our customisation and development capabilities, we are able to provide machine tool solutions to our customers by examining and evaluating the application uses and the specific needs and requirements of end customers, and make various specifications and/or customisations to our CNC high precision machine tools by, for example, developing parts and components and software for application uses of our CNC high precision machine tools according to the operational needs of our customers and/or end customers. Further, we communicate with and obtain information from our customers and end customers to assess and evaluate their feedback and needs to understand the market demand and trend on different types or models of our CNC high precision machine tools. We then provide such information and feedback to Tsugami Japan, which in turn, will assist us in improving our existing machine tools and developing new machine tools. As at 31 March 2017, we had 73 staff in our technical team. As at the Latest Practicable Date, we also had 68 registered patents in the PRC, primarily relating to our machine tools and parts and components for the manufacture of CNC high precision machine tools, and six registered copyrights in the PRC in relation to our software for the application uses of our CNC high precision machine tools.

We place great emphasis on precision production and quality control as we believe our CNC high precision machine tools perform critical function in the production processes of end customers engaged in various downstream industries. We have dedicated production and quality control teams with experienced staff equipped with knowledge of our CNC high precision machine tools and possess years of experience in machinery assembling and testing. With the Technology licensed from Tsugami Japan, our CNC high precision machine tools are able to process small and delicate components. We are also able to achieve a CNC rate of 100% in terms of manufacturing, higher than the average rate of approximately 30% for most of the machine tool manufacturers in the PRC, according to Frost & Sullivan. Further, we have been accredited with the ISO 9001 certification since 2011 as a result of our stringent production process and quality control. Certain models of our CNC high precision machine tools also satisfy the safety standards required for machine tools to be sold in the Europe. We believe that we possess advanced production technology and our continuous implementation of stringent production process and quality control will assure the high precision and quality of our CNC machine tools and help to maintain our reputation.

Experienced and high calibre management team with a proven track record

We have an experienced and dedicated management team led by our chief executive officer and executive Director, Dr. Tang Donglei. Dr. Tang has over 24 years of management and industrial experience with Japanese listed companies and production equipment manufacturers and has been with our Group for more than 10 years. Dr. Tang also possesses extensive experience in the CNC high precision machine tool industry and obtained his doctorate degree of engineering in precision machinery systems from Tokyo Institute of

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Technology. Our executive Director, Mr. Tatsushi Hidano, has more than 25 years of experience in the CNC high precision machine tool industry and is also responsible for the development of our production technology. Our other executive Director, Mr. Yoshimasa Hashimoto, also has more than 15 years of experience in accounting and financial management. Please refer to the section headed “Directors, Senior Management and Employees” in this prospectus for further details of our Directors’ biographies. We believe that our experienced management team has played a key role in leading the operation and development strategies of our Group and provided us with deep industry and operational knowledge, which has been and will continue to be the key to our success in our operations and profitability.

FUTURE STRATEGIES

We intend to further strengthen our current market position in the PRC CNC high precision machine tool industry. By leveraging our strengths, we intend to continue to increase our sales by broadening the application uses of our CNC high precision machine tools and expanding our sales network, strengthen our customisation and development capabilities to develop and manufacture principal parts and components, improve our software for application uses and production technology and techniques, and expand our production facilities and capacities. We plan to achieve our goals by pursuing the following principal future strategies:

Maintain and continue to strengthen our market position in the CNC high precision machine tool industry in the PRC

We will continue to market our CNC high precision machine tools in the PRC through our dedicated sales and customer service team. According to Frost & Sullivan, the revenue of the PRC CNC high precision machine tool industry is expected to grow from approximately RMB118.5 billion in 2016 to approximately RMB156.1 billion in 2021, with a CAGR of approximately 5.7% from 2016 to 2021. The sales volume of PRC CNC high precision machine tools is also expected to grow from approximately 431,300 units in 2016 to approximately 602,200 units in 2021 with a CAGR of approximately 6.9% from 2016 to 2021. Further, according to Frost & Sullivan, the sales ratio of the PRC CNC high precision machine tools, being the sales volume of the PRC CNC high precision machine tools divided by the sales volume of the total PRC machine tools, in 2016 reached approximately 24.0%, while the sales ratio of the CNC high precision machine tools in Japan and Germany in 2016 was approximately 67.1% and 65.8%, respectively, indicating a growth potential for expansion of the CNC high precision machine tool industry in the PRC. As such, we plan to continue to focus on the PRC CNC high precision machine tool market in the near future to capture the potential growth and further increase our market share. We seek to deepen our relationship with our customers by continuously providing them with effective customer services as this will likely offer us additional sales opportunities. We will also continue to place emphasis on customer relations by communicating with our customers and end customers on the market trends and provide them with new information and specifications of our CNC high precision machine tools to ensure that we proactively anticipate and satisfy their business needs and requirements. Internally, we will continue to enhance our customisation and development capabilities, production technology and techniques and cooperations among our operating departments to continuously leverage our strengths to provide quality CNC high precision machine tools to our customers and end customers.

Broaden the application uses of our CNC high precision machine tools and further expand our sales network to increase our sales in the PRC

According to Frost & Sullivan, we were the largest precision automatic lathe manufacturer in the PRC in terms of revenue in 2016, with a market share of approximately 34.8%. We primarily sell our precision automatic lathes for end customers engaged in the IT and electronic product industry. We believe that despite our current established market position for precision automatic lathes in the PRC, we still have growth potential due to the tremendous opportunities in the PRC CNC high precision machine tool industry. According to Frost & Sullivan, the automobile industry in the PRC is the largest industry in terms of application uses for CNC high precision machine tools. Further, as there is a focus on energy saving and emission control in the automobile market, the industry will require more CNC high precision machine tools. As such, we plan to leverage on our current established position and well-established reputation in the PRC precision automatic lathe market to further expand the application uses of our CNC high precision machine tools for the PRC automobile industry and increase our sales.

We also plan to continue to expand our sales network in the PRC. Currently, our established sales network mainly focuses on the geographical regions of eastern and southern China. We intend to further expand our sales network in the central, western and northern China to explore new sales opportunities and further promote advantages of using CNC high precision machine tools compared to the conventional machine tools in various industries. We also intend to establish more representative and branch offices as liaising points to improve our communications with distributors and effectively facilitate the provision of aftersales services and technical support to our customers and end customers. Further, we intend to open new showrooms to show case our CNC high precision machine tools and recruit more sales personnel to increase our sales and marketing efforts. In addition, we also plan to participate in more exhibitions or trade fairs to explore potential customers engaged in various industries, such as industries of integrated circuits, semiconductors and watches and clocks, to expand the sales and application uses of our CNC high precision machine tools.

Expand our customisation and development efforts

We believe that our customisation and development capabilities are critical to our future development and growth. We currently license the Technology from Tsugami Japan to manufacture our CNC high precision machine tools. However, we plan to invest more resources to strengthen our own customisation and development capabilities to develop and upgrade our software for application uses and production technology and techniques so that we are able to offer CNC high precision machine tools with higher precision and efficiency and more specifications and/or customisations to our customers and end customers.

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In addition, we intend to continue to strengthen our customisation and development capabilities to develop and manufacture more principal parts and components that we currently procure from Tsugami Japan to further enhance our cost efficiency and increase our gross margin. In doing so, we intend to enhance our technology analysis abilities and recruit developers and technologists with extensive experience in the CNC high precision machine tool industry. Further, we also plan to cooperate with universities and institutes to recruit talent graduates to join our technical team and encourage regular communication between our technical team and relevant universities and institutes to generate and exchange ideas for new CNC high precision machine tools and technological developments.

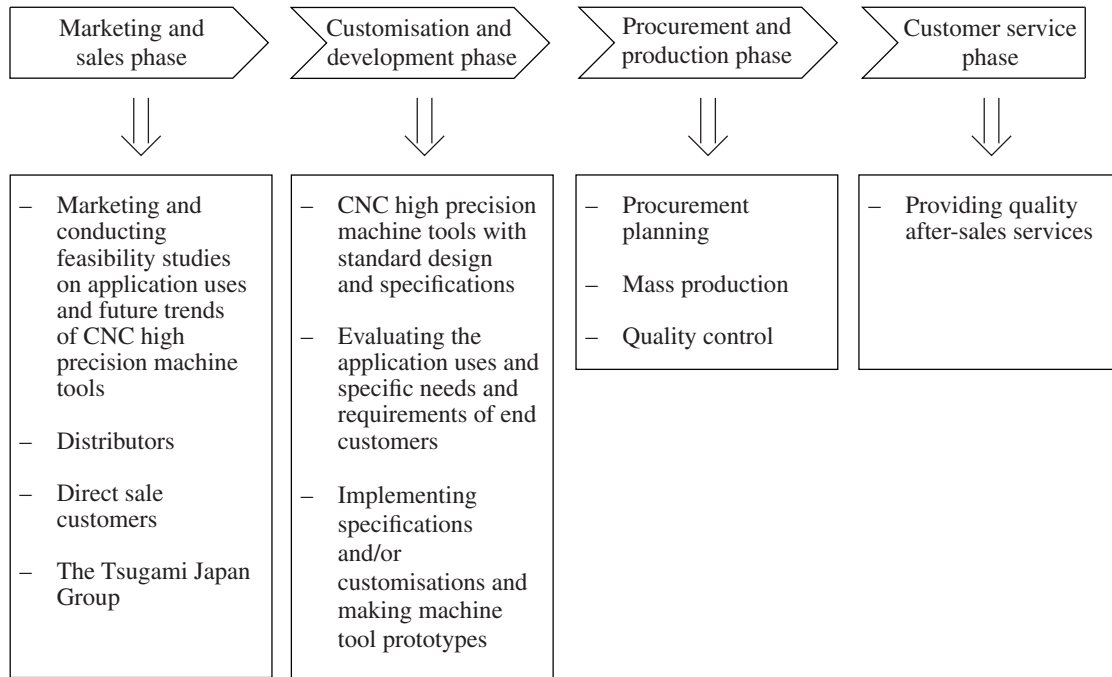
Expand our production facilities and enhance our production capacities and efficiency

According to Frost & Sullivan, the revenue and sales volume of the PRC CNC high precision machine tools are expected to continue to grow at a CAGR of approximately 5.7% and 6.9%, respectively, from 2016 to 2021, due to the development of various downstream industries in the PRC, such as industries of IT and electronic products and automobile, and favourable PRC government policies on the CNC high precision machine tool industry. We anticipate that there will be a further increase in demand by end customers for our CNC high precision machine tools in the PRC. As such, we plan to continue to upgrade and expand our production facilities and capacities at our Pinghu Production Plants to meet their growing demand and needs.

We plan to purchase and replace production machinery and equipment for our Pinghu Production Plants to enhance our production capacities and efficiency. We also plan to rebuild and renovate part of our production plant four to particularly enhance our production process for assembling. Please refer to the sections “Business – Production – Future expansion plan”, “Financial Information – Liquidity and capital resources – Planned capital expenditures” and “Future Plans and Use of Proceeds” in this prospectus for further details of our future expansion plan.

OUR BUSINESS MODEL

We primarily engage in the manufacture and sales of a wide range of CNC high precision machine tools under the TSUGAMI brand to manufacturers engaged in various industries, including IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery.



We manage and operate our business through a cycle of marketing and sales phase, customisation and development phase, procurement and production phase and customer service phase:

- *Marketing and sales phase*, where we market our CNC high precision machine tools and enter into sales agreements with our customers;
- *Customisation and development phase*, where our technical team assesses and evaluates the application uses and specific needs and requirements of end customers, selects the suitable machine tool types, develops software for application uses of our CNC high precision machine tools according to the operational needs of our customers and/or end customers, makes machine tool prototypes with necessary specifications and/or customisations and prepares the manufacturing procedures;
- *Procurement and production phase*, where we procure parts and components and manufacture our CNC high precision machine tools in accordance with our sales agreements; and
- *Customer service phase*, where we provide quality and effective aftersales services and technical support on our CNC high precision machine tools to our customers and end customers.

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OUR PRODUCTS

We offer a wide range of CNC high precision machine tools under the TSUGAMI brand to manufacturers engaged in various industries, including industries of IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery. Machine tools refer to machines that can produce work pieces of required materials, shape, size by cutting, milling or other ways of deformation. CNC high precision machine tools are machine tools that perform work under the control of numerical program control system consisting of instructions on precise motions, and automatically process or cut parts and components of required size and shape. Further, CNC high precision machine tools provide high accuracy through automating the manufacturing process and reduce operators' interventions, which in turn, reduce human error and enhance manufacturing flexibility and precision.

Our CNC high precision machine tools can be broadly classified into five major product categories, namely, precision automatic lathes, precision turret machines, precision machining centres, precision grinding machines and precision thread and form rolling machines. We offer CNC high precision machine tools that are of our standardised design and specifications to our customers. Upon examining and evaluating the application uses and specific needs and requirements of the end customers, we are also able to provide machine tool solutions to them and make various specifications and/or customisations to our CNC high precision machine tools by, for example, selecting or developing the cutting tools depending on the metals to be processed, and developing parts and components and software for application uses of our CNC high precision machine tools. The product lifecycle of our CNC high precision machine tools is around 10 years, but largely depends on the market demand for certain models of CNC high precision machine tools, the specific business needs and requirements of end customers and the regular inspection and maintenance conducted by the end users.

The following table sets out our revenue by product category for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue
Our main products						
Precision automatic lathes	1,430,727	69.5	801,281	59.0	1,047,911	64.0
Precision turret machines	260,466	12.7	235,502	17.4	290,079	17.7
Precision machining centres	243,495	11.8	133,468	9.8	120,755	7.4
Precision grinding machines	73,384	3.6	80,984	6.0	98,453	6.0
Precision thread and form rolling machines	10,433	0.5	10,074	0.7	11,159	0.7
Others ⁽¹⁾	39,225	1.9	96,156	7.1	67,924	4.2
Total:	<u>2,057,730</u>	<u>100.0</u>	<u>1,357,465</u>	<u>100.0</u>	<u>1,636,281</u>	<u>100.0</u>

Note:

- Others primarily include sales of accessory parts and components.

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According to Frost & Sullivan, the average selling price of CNC high precision machine tools in the PRC slightly decreased from approximately RMB297,300 per unit in 2011 to approximately RMB274,800 per unit in 2016, and is expected to decrease to approximately RMB259,200 per unit in 2021, due to the expanding production capacities of the leading market players. During the Track Record Period, the average selling prices of our CNC high precision machine tools varied for a number of reasons, including market competition, our procurement and production costs and other factors. For more details of our pricing policy, please refer to the section headed “Business – Sales – Pricing” in this prospectus. The table below sets out our sales volume and average selling prices of our CNC high precision machine tools by product category for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	Sales volume	Average price/unit (RMB'000)	Sales volume	Average price/unit (RMB'000)	Sales volume	Average price/unit (RMB'000)
Our main products						
Precision automatic lathes	4,611	310.3	3,039	263.7	3,638	288.0
Precision turret machines	936	278.3	943	249.7	1,077	269.3
Precision machining centres	1,066	228.4	539	247.6	478	252.6
Precision grinding machines	228	321.9	231	350.6	247	398.6
Precision thread and form rolling machines	35	298.1	35	287.8	41	272.2
Total/Average:	<u>6,876</u>	<u>293.6</u>	<u>4,787</u>	<u>263.5</u>	<u>5,481</u>	<u>286.1</u>

Precision automatic lathes

Our precision automatic lathes perform the cutting work on metal work pieces being held by collet chuck inside the machine tools. The cutting tools of the precision automatic lathes remains stationary and use straight-line or swinging motions to cut the metal pieces that passes it. Precision automatic lathes generally process shaft components that are small and spindly.

We offer precision automatic lathes in various models featuring different specifications, including the machining diameters, number of spindles, spindle rotation speed and number of cutting tools. For example, our P013 and P014 precision automatic lathes are built with smaller machining diameters and are used to cut smaller metal work pieces, while our B0385 precision automatic lathes are built with larger machining diameters and are used to process bar materials with larger diameters. Precision automatic lathes are commonly used in various industries, including IT and consumer electronic products, office equipment, medical apparatus, digital camera and automobile.

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For the three years ended 31 March 2015, 2016 and 2017, approximately 69.5%, 59.0% and 64.0% of our revenue was generated from the sales of our precision automatic lathes, respectively. According to Frost & Sullivan, we ranked first in the PRC precision automatic lathe market in terms of revenue in 2016, with a market share of approximately 34.8%.

Set forth below are sample pictures of our precision automatic lathes:



Precision turret machines

Our precision turret machine evolves from our precision automatic lathe by adding an additional turret which can cut metal work pieces that are more than 10 times longer than its spindle diameter. Such additional turret is also able to move in multiple axes to add drilling or milling operations into the precision automatic lathe. Manufacturing precision turret machines generally requires higher precision and production technology standards. According to Frost & Sullivan, we were one of the first few manufacturers that were able to manufacture and sell precision turret machines in the PRC. We believe that, due to our advanced production technology and techniques and our ability to control costs of production, we are able to manufacture precision turret machines at competitive costs compared to overseas manufacturers possessing similar production technology and techniques. Precision turret machines are commonly used in industries of automobile, pneumatic component manufacturing and metal processing. For the three years ended 31 March 2015, 2016 and 2017, approximately 12.7%, 17.4% and 17.7% of our revenue was generated from the sales of our precision turret machines, respectively.

Set forth below are sample pictures of our precision turret machines:



Precision machining centres

Our precision machining centres are typically used for processing metals with irregular shape and complicated structure. We offer precision machining centres featuring different specifications, including worktable dimension, machining space, spindle rotation speed and number of cutting tools. The precision machining centres work differently from the other CNC high precision machine tools that we manufacture. The metal work pieces typically remain stationary throughout the cutting process and only move to align with the cutting tools that work at a different angle of the metal work pieces. Precision machining centres are commonly used in industries of metal processing, automobile and IT and electronic products. For the three years ended 31 March 2015, 2016 and 2017, approximately 11.8%, 9.8% and 7.4% of our revenue was generated from the sales of our precision machining centres, respectively.

Set forth below are sample pictures of our precision machining centres:



Precision grinding machines

Our precision grinding machines are similar in product structure as to our precision automatic lathes, but instead of using cutting tools, our precision grinding machines use grinding wheels. A grinding wheel has a larger surface area to grind and polish the metal work pieces to create smoother surface finishes. Precision grinding machines are commonly used to produce parts for industries of military, aerospace and internal-combustion engine. We offer precision grinding machines in various models featuring different specifications, including the gyration diameters and various size and shape of the grinding wheels with different cutting motion direction, to accommodate the varying needs of the end customers. For the three years ended 31 March 2015, 2016 and 2017, approximately 3.6%, 6.0% and 6.0% of our revenue was generated from the sales of our precision grinding machines, respectively.

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Set forth below are sample pictures of our precision grinding machines:



Precision thread and form rolling machines

Precision thread and form rolling machines work by a process involving two whirling wheels with the metal work pieces being fed in between the rotating wheels with high speed. The rotating motion of the whirling wheels craft swirl indentation on the metal work pieces to create precise and uniform external thread forms. Precision thread and form rolling machines are generally used to cut metals that are more ductile which allow swirl indentation to be created. Precision thread and form rolling machines are commonly used for mass production of processing complicated shape with no symmetrical holes in rotary axis in the construction and automobile industries. For the three years ended 31 March 2015, 2016 and 2017, approximately 0.5%, 0.7% and 0.7% of our revenue was generated from the sales of our precision thread and form rolling machines, respectively.

Set forth below are sample pictures of our precision thread and form rolling machines:



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SALES

Overview

We primarily sell our CNC high precision machine tools in the PRC via our established sales network to end customers engaged in various industries, including IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery. We also sell CNC high precision machine tools to certain of our major end customers in the PRC by way of direct sales. Since June 2016, we have also been selling our CNC high precision machine tools to Taiwan through our Taiwanese distributor. Further, in view of our mass production capabilities at our Pinghu Production Plants, the Tsugami Japan Group also procures a portion of our CNC high precision machine tools to sell to its customers based in the Other Markets, with or without further customisations. Our Directors believe that our sales model is in line with the industry practice and our sales of CNC high precision machine tools are generally not subject to seasonal fluctuations. For the three years ended 31 March 2015, 2016 and 2017, approximately 72.8%, 56.9% and 63.7% of our revenue was derived from our PRC sales, respectively, and 27.2%, 43.1% and 36.3% of our revenue was derived from our overseas sales, respectively. The table below sets out our revenue by customer type for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB (‘000)	% of total revenue	RMB (‘000)	% of total revenue	RMB (‘000)	% of total revenue
Distributors	854,233	41.5	703,565	51.8	1,041,347	63.6
Relevant Manufacturers	588,052	28.6	13,838	1.0	4,723	0.3
Other direct sales customers.	56,234	2.7	55,840	4.2	41,881	2.6
Tsugami Japan Group	559,211	27.2	584,222	43.0	548,330	33.5
Total:	2,057,730	100.0	1,357,465	100.0	1,636,281	100.0

Note:

1. Our sales to customers also included our sales of accessory parts and components.

We sell all of our CNC high precision machine tools under the TSUGAMI brand. We recognise revenue from the sales of our CNC high precision machine tools when it is probably that the economic benefits will flow to our Group and the revenue can be measured reliably. For our sales in the PRC, we recognise our revenue when our customers pick up our CNC high precision machine tools from our Pinghu Production Plants or when we have delivered our CNC high precision machine tools directly to locations designated by our customers. For our sales to overseas, we recognise our revenue when we have delivered our CNC high precision machine tools across the ship’s rail at the designated port of shipment. Our established sales network currently focuses on the geographical regions of eastern, southern, northern and northeastern China, as most of the end customers engaged in the manufacturing industries are based in these regions. As at 31 March 2017, we had representative and branch offices

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respectively located in Shanghai, Dongguan, Qingdao, Wuxi, Wuhan, Chongqing, Shenzhen, Tianjin, Dalian, Shenyang, Ningbo, Wuhu, Xi'an, Xiamen and Foshan, the PRC, to liaise with our customers and facilitate our sales and customer service team to provide aftersales services and technical support to our customers and end customers. Our branch offices in Dongguan and Wuxi also exhibit showrooms to showcase our CNC high precision machine tools.

Our sales and customer service team is currently headed by Mr. Jiang Ping, a member of our senior management. As at 31 March 2017, our sales and customer service team consisted of 209 staff, of which 79 staff are primarily responsible for the sales and marketing of our CNC high precision machine tools and 130 staff are primarily responsible for the provision of aftersales services and technical support to our customers and end customers. Our sales team under our sales and customer service team is also responsible for sourcing new customers, managing and reviewing performance of the existing distributors and conducting feasibility studies on market data.

In future, we intend to further expand our sales network in the central, western and northern China to explore new sales opportunities and further increase our market penetration and strengthen our market position in the PRC.

Our customers

Our customers include our distributors, certain direct sale customers and the Tsugami Japan Group. We place strong emphasis on establishing and maintaining strong and stable business relationship with our customers. As at 31 March 2017, we had more than four years of business relationship with all of our top five customers. For the three years ended 31 March 2015, 2016 and 2017, sales to our top five customers represented approximately 56.7%, 60.4% and 56.5% of our total revenue for the same periods, respectively. Sales to our largest customer, the Tsugami Japan Group, represented approximately 27.2%, 43.0% and 33.5% of our total revenue for the same periods, respectively. To the best knowledge of our Directors, except for the Tsugami Japan Group, which is our connected person, none of our Directors and/or their respective close associates, or any of our existing Shareholders who owned more than 5% of the issued share capital of our Company, had any interest in any of our top five customers during the Track Record Period. For more details of our sales to the Tsugami Japan Group, please refer to the sections headed “Business – Sales – Our customers – Overseas sales” and “Connected Transactions – Continuing connected transactions – Non-exempt continuing connected transactions – Sales of our CNC high precision machine tools to Tsugami Japan Group” in this prospectus. To the best knowledge of our Directors, save and except for the Tsugami Japan Group and Customer F (our purchases from Customer F accounted for less than 1.0% of our total purchases for each of the financial years during the Track Record Period), none of our five largest customers during the Track Record Period was a supplier of our Group.

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The tables below set forth the basic information of our top five customers during the Track Record Period:

For the year ended 31 March 2015

Customer	Major products sold to the customer	Approximate % of our total revenue attributable to the customer	Background of the customer	Principal business of the customer	Years of business relationship as at 31 March 2015 (approximate)	Credit period
Tsugami Japan Group ⁽¹⁾	Precision automatic lathes, precision turret machines, precision machining centres, precision grinding machines and precision thread and form rolling machines	27.2	Our Controlling Shareholder and its subsidiaries (other than our Group)	Design, research, development, manufacture and sales of CNC high precision machine tools	More than 9 years	Up to 60 days
Customer A ⁽²⁾	Precision automatic lathes	10.0	A company established in the PRC	Manufacturing	More than 3 years	Up to 45 days
Customer B ⁽³⁾	Precision automatic lathes	7.2	A company established in the PRC	Manufacturing	More than 3 years	Up to 45 days
Customer C ⁽⁴⁾	Precision automatic lathes	6.6	A company established in the PRC	Manufacturing	More than 3 years	Up to 45 days
Customer D	Precision automatic lathes, precision turret machines, precision machining centres and precision grinding machines	5.7	A Taiwanese owned company established in the PRC	Distribution	More than 9 years	Up to 180 days

Notes:

1. Tsugami Japan was also one of our top five suppliers during the Track Record Period.
2. Revenue attributable to Customer A included our sales to two Relevant Manufacturers, which, to the best knowledge of our Directors, were related parties of each other.
3. Customer B was a Relevant Manufacturer. After the year ended 31 March 2015, we did not make any sales to Customer B.
4. Revenue attributable to Customer C included our sales to two Relevant Manufacturers, which, to the best knowledge of our Directors, were related parties of each other.

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For the year ended 31 March 2016

Customer	Major products sold to the customer	Approximate % of our total revenue attributable to the customer	Background of the customer	Principal business of the customer	Years of business relationship as at 31 March 2016 (approximate)	Credit period
Tsugami Japan Group ⁽¹⁾	Precision automatic lathes, precision turret machines, precision machining centres, precision grinding machines and precision thread and form rolling machines	43.0	Our Controlling Shareholder and its subsidiaries (other than Group)	Design, research, development, manufacture and sales of CNC high precision machine tools	More than 10 years	Up to 60 days
Customer E	Precision automatic lathes, precision turret machines and precision machining centres	5.3	A company established in the PRC	Distribution	More than 7 years	Nil
Customer D	Precision automatic lathes, precision turret machines, precision machining centres and precision thread and form rolling machines	4.9	A Taiwanese owned company established in the PRC	Distribution	More than 10 years	Up to 180 days
Customer F ⁽²⁾	Precision automatic lathes, precision turret machines, precision grinding machines and precision thread and form rolling machines	3.9	A Japanese owned company established in the PRC	Distribution	More than 9 years	Up to 90 days
Customer G	Precision automatic lathes, precision turret machines, precision machining centres, precision grinding machines and precision thread and form rolling machines	3.3	A company established in the PRC	Distribution	More than 4 years	Nil

Notes:

1. Tsugami Japan was also one of our top five suppliers during the Track Record Period.
2. Customer F was also our supplier during the Track Record Period, purchases from which accounted for less than 1.0% of our total purchases for each of the financial years during the Track Record Period.

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For the year ended 31 March 2017

Customer	Major products sold to the customer	Approximate % of our total revenue attributable to the customer	Background of the customer	Principal business of the customer	Years of business relationship as at 31 March 2017 (approximate)	Credit period
Tsugami Japan Group ⁽¹⁾ . . .	Precision automatic lathes, precision turret machines, precision machining centres, precision grinding machines and precision thread and form rolling machines	33.5	Our Controlling Shareholder and its subsidiaries (other than our Group)	Design, research, development, manufacture and sales of CNC high precision machine tools	More than 11 years	Up to 60 days
Customer D ⁽²⁾ . . .	Precision automatic lathes, precision turret machines, precision machining centres and precision thread and form rolling machines	10.4 ⁽²⁾	A Taiwanese owned company established in the PRC	Distribution	More than 11 years	Up to 180 days
Customer E . . .	Precision automatic lathes, precision turret machines and precision machining centres	6.0	A company established in the PRC	Distribution	More than 8 years	Nil
Customer G . . .	Precision automatic lathes, precision turret machines, precision machining centres, precision grinding machines and precision thread and form rolling machines	4.1	A company established in the PRC	Distribution	More than 5 years	Nil
Customer H . . .	Precision automatic lathes, precision turret machines, precision machining centres, precision grinding machines and precision thread and form rolling machines	2.5	A company established in the PRC	Distribution	More than 4 years	Nil

Notes:

1. Tsugami Japan was also one of our top five suppliers during the Track Record Period.
2. Revenue attributable to Customer D included our sales of CNC high precision machine tools to Taiwan since June 2016 through our Taiwanese distributor, which, to the best knowledge of our Directors, is a company incorporated in Taiwan and a related party of Customer D.

BUSINESS

PRC sales

Distributors

As at 31 March 2015, 2016 and 2017, we had 124, 159 and 193 distributors in the PRC, respectively. To the best knowledge of our Directors, all our distributors in the PRC are independent of our Group. During the Track Record Period, none of our Directors or Shareholders had any equity interest in any of our distributors in the PRC, and none of our distributors in the PRC or their beneficial owners had any relationship with our Group or our Directors or Shareholders. In addition, after due inquiries, our Directors confirm that during the Track Record Period, (i) none of our distributors in the PRC or their beneficial owners had any family relationship with our Directors and Shareholders or trust relationship with our Group or our Directors and Shareholders, and (ii) none of our distributors (including their beneficial owners) acted as our distributors during the employment of our Group. Our sales to our distributors in the PRC represented approximately 41.5%, 51.8% and 60.8% of our total revenue for the three years ended 31 March 2015, 2016 and 2017, respectively. We maintain long term and stable cooperative relationship with our distributors in the PRC. As at 31 March 2017, we had more than four years of business relationship with all of our top five distributors in the PRC.

The following table sets forth changes in the number of our distributors in the PRC during the periods indicated:

	Year ended 31 March		
	2015	2016	2017
Number of distributors as at the beginning of the financial year	92	124	159
Number of new distributors newly appointed	47	46	50
Number of distributors terminated	(15)	(11)	(16)
Number of distributors as at the end of the financial year	124	159	193

During the Track Record Period, we newly appointed 143 distributors and terminated our distributorship arrangements with 42 distributors in the PRC. The fluctuation in the numbers of distributors during the Track Record Period was as a result of certain numbers of additions and terminations of distributors due to our review and assessment of our distributors to optimise our distribution structure to suit our requirements in the most efficient and cost-effective manner. The additions of our new distributors during the Track Record Period were primarily due to our efforts in expanding our sales network. The termination of business relationship with certain of our distributors during the Track Record Period were due to the reasons such as, certain distributors failing to place sales orders with us within two years while they also did not proactively maintain the relationship with their customers and communicate with us from time to time. As we understand that our distributors need time and efforts to nurture the relationship with their potential customers in order to expand their sales network, we do not generally terminate the business relationship with our distributors simply because of their failure to place sales orders with us for a year although we are entitled to do so pursuant to our distributor management guidelines.

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Our Directors believe that by establishing sales network in the PRC through our distributors, we do not need to bear substantial costs in relation to sales and marketing and we are able to market our CNC high precision machine tools to a broader range of end customers in terms of geographic regions and industrial application uses with relatively competitive pricing. Further, we believe that we can also benefit from our distributors' established distribution channel and resources to save costs that we would otherwise have incurred to build up such sales network, which in turn, could increase the penetration of our CNC high precision machine tools into various industries and allow us to effectively launch new types and models of CNC high precision machine tools to the market in a shorter period of time.

We adopt guidelines to select, assess and monitor our distributors. We may conduct background search and on-site visit on our potential distributors where necessary. We also consider a wide range of factors, including their size, scope of business and industry experience as well as their customer bases, locations and sales channels when determining whether such distributors qualify as our distributors.

Management of our distributors in the PRC

We monitor our distributors according to our distributor management guidelines. In order to avoid cannibalisation and competition among distributors and to ensure our effective control over our distributors, we adopt end customer reporting and filing policy, which our distributors are required to submit preliminary reports to us consisting the name of end customers and basic purchase information when they intend to obtain any sales orders from such end customers. Upon receiving the preliminary reports from our distributors, our sales staff will check against our database of end customers to ensure that such end customer has not yet engaged with another of our distributor and there will not be multiple distributors selling our CNC high precision machine tools to the same end customer. Our distributors are only allowed to proceed with sale orders upon our check and approval. We generally supply our CNC high precision machine tools to our distributors on an order-by-order basis and do not accept return or exchange of obsolete machine tools. As such, we were not aware of any channel stuffing during the Track Record Period.

Although we may discuss our business goals with our distributors, we generally do not fix annual sales targets for them. We also do not impose minimum purchase requirement on our distributors. However, pursuant to our distributor management guidelines, we are entitled to terminate the business relationship with our distributor if such distributor fails to obtain at least one sale order within a year and fails to proactively maintain business relationship with existing customers and develop new customers. In addition, our distributors are required to adhere to our pricing guidelines. Our distributors are also required to obtain our prior approval if they want to provide larger discount to their customers for specific reasons. Further, our distributors are obligated to keep confidential any information relating to our business and customers obtained during their cooperation with us.

We generally allow our distributors to formulate their own marketing and promotion policies. To support our distributors' marketing efforts, we provide our product information and marketing materials to our distributors from time to time. We have also designed and implemented certain award programs to recognise and motivate and improve the sales performance of our distributors.

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We require our distributors to follow our distributor management guidelines. In the event that we notice certain non-compliance conducts by our distributors, including selling our CNC high precision machine tools to end customers that are already engaged by another of our distributors or selling CNC high precision machine tools of our competitors without our approval, we are entitled to terminate the business relationship with such distributors and claim for any losses or liabilities arising from and/or in connection with the distribution by such distributors.

The below sets out a summary of our distributor management guidelines:

- Obligations of and restrictions on our distributors:
- Adhere to our guidance and policy and proactively facilitate our sales;
 - Endeavor to proactively maintain business relationship with existing customers through visits from time to time and develop new customers;
 - Adhere to our end customer reporting and filing policy;
 - Adhere to our pricing guidelines and shall not increase or decrease the selling prices of our CNC high precision machine tools without obtaining our prior approval;
 - Keep all information received during the cooperation with us in strict confidence and shall not disclose to any third party without first obtaining our prior approval;
 - Shall not develop or assist any other third party to develop machine tools which are similar to ours; and
 - Endeavor to enhance service quality and shall not affect our image and reputation nor distribute our CNC high precision machine tools in dishonest or illegal manner;

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- Reporting and filing policy:
- Distributors are required to report to us before providing quotation verbally or in writing to a potential end customer;
 - If a distributor fails to obtain the purchase orders from end customer after reporting to us, we are entitled to refer such end customer to other distributors;
 - During the six months after reporting, if the end customer requests to change distributor and/or terminate business relationship with particular distributor, we are entitled to refer such end customer to other distributors; and
 - We will, from time to time, visit end customers which our distributors have reported to us to ensure that end customers are satisfied with the performance of our distributors and whether there are competitors at the market.

Agreements with our distributors in the PRC

We generally enter into agreements with our distributors for each sales order. Set out below are the material terms of our agreements:

- *Product specifications* – Our sales agreements generally set out the types, model numbers and quantities of our CNC high precision machine tools ordered by our distributors.
- *Payment terms* – We typically require our distributors to pay us an initial deposit of 10.0% of their purchase amount for each sales order within five working days from the date of signing the sales agreement and the full payment within seven working days before the delivery of our CNC high precision machine tools.
- *Delivery* – Distributors can choose to pick up our CNC high precision machine tools at our Pinghu Production Plants or we can arrange for the delivery of our CNC high precision machine tools directly to locations as designated by our distributors.
- *Cancellation* – We are entitled to forfeit the deposit paid in the event that our distributors unilaterally request to cancel the sales orders or fail to eventually make full payment within three months from the original scheduled delivery date.
- *Aftersales services* – We are required to arrange our technicians to attend end customers' production sites after the delivery of our CNC high precision machine tools to provide aftersales services and training to end customers within one week upon receiving requests from our distributors.

BUSINESS

- *Warranty* – We generally provide one year product warranty in relation to the quality issues arising from our CNC high precision machine tools.
- *Other rights and obligations* – Our distributors are entitled to the rights and responsible for the obligations set forth in our distributor management guidelines.

Direct sale customers

Our direct sale customers in the PRC are mainly our major end customers that place large sales orders with us. Sales to our direct sale customers in the PRC represented approximately 31.3%, 5.2% and 2.9% of our total revenue for the three years ended 31 March 2015, 2016 and 2017, respectively.

For our sales to our direct sale customers, we also generally enter into agreements with them for their sales orders. The terms of the agreements entered into with our direct sale customers are generally similar to those entered into with our distributors.

During the Track Record Period, we provided certain CNC high precision machine tools to the Relevant Manufacturers based upon the business relationship between Tsugami Japan and the Electronics Company. Our CNC high precision machine tools have been widely recognised by manufacturers engaged in various industries, including IT and electronic products, for cutting smaller precision metal work pieces and components, and we are also able to mass manufacture and deliver single or similar models of the CNC precision machine tools within a short of period time upon the request of the customers in view of our mass production capabilities at the Pinghu Production Plants. Tsugami Japan and the Electronics Company have entered into business negotiation and discussions for the manufacture and provision of certain models of CNC high precision machine tools in accordance with the relevant technical requirement and other terms and conditions of the sales and purchases of such machine tools. During the Track Record Period, Tsugami Japan and us typically communicated together with the Electronics Company on the purchase details, and the Relevant Manufacturers would then directly place purchase orders with us. For the relevant aftersales services including selling and/or replacing certain accessory parts and components of the machine tools sold, we generally discuss and negotiate the prices and other terms with the Relevant Manufacturers directly. Pursuant to the business arrangement between Tsugami Japan and the Electronics Company, specific purchase orders were to be made by the Relevant Manufacturers, and based on their business arrangement, the prices of our CNC high precision machine tools sold to these Relevant Manufacturers were not allowed to exceed the prices of similar CNC high precision machine tools sold to our other customers. Also, according to the written agreement, priority should be given to the Relevant Manufacturers over our other customers if there have been constraints on our production capacities to provide CNC high precision machine tools and relevant aftersales services. In addition, pursuant to the written agreement between Tsugami Japan and the Electronics Company, products and services will not be provided unless purchase orders have been issued, and the Relevant Manufacturers are generally required to pay us within 45 days from the latest of (i) receiving correct invoices; (ii) accepting delivery; or (iii) satisfactory completion of services. Further, the written agreement between Tsugami Japan and

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the Electronics Company may be terminated either by written notice given by the Electronics Company, or by Tsugami Japan if the Electronics Company commits a material breach of the written agreement and failure to rectify within 30 days upon receipt of written notice. For the three years ended 31 March 2015, 2016 and 2017, our revenue derived from the Relevant Manufacturers amounted to approximately RMB588.1 million, RMB13.8 million and RMB4.7 million, respectively, accounted for approximately 28.6%, 1.0% and 0.3% of our total revenue for the same period, respectively. For more details of our sales to the Relevant Manufacturers, please refer to the section headed “Financial Information” in this prospectus.

Although our business with the Relevant Manufacturers was based upon the business relationship between Tsugami Japan and the Electronics Company, we typically communicate directly with the Relevant Manufacturers in respect of the details of the purchase orders without Tsugami Japan’s active involvement. Nevertheless, as the Relevant Manufacturers are, to our best knowledge, suppliers of the Electronics Company, we and Tsugami Japan would generally discuss business with the Electronics Company together. Tsugami Japan may also be copied in our communication with the Relevant Manufacturers. As evidenced that our sales to the Relevant Manufacturers only accounted for approximately 1.0% and 0.3% of our Group’s total revenue for the years ended 31 March 2016 and 2017, respectively, our Directors believe that no reliance had been placed on our sales to the Relevant Manufacturers, despite that such business arrangement may continue after the Listing as long as Tsugami Japan has business relationship with the Electronics Company.

Overseas sales

In view of our mass production capabilities at our Pinghu Production Plants, the Tsugami Japan Group also procures a portion of our CNC high precision machine tools to sell to its customers based in the Other Markets, including Japan, Korea, Thailand, the US and certain European countries. We manufacture CNC high precision machine tools of standardised design and specifications and deliver the same to Japan for the Tsugami Japan Group’s further customisations and sales to its customers. Upon the instructions of the Tsugami Japan Group, we will also make certain specifications and/or customisations to our CNC high precision machine tools and deliver these machine tools to the designated overseas countries on behalf of the Tsugami Japan Group.

For the three years ended 31 March 2015, 2016 and 2017, our revenue derived from our sales to the Tsugami Japan Group amounted to approximately RMB559.2 million, RMB584.2 million and RMB548.3 million, accounted for approximately 27.2%, 43.0% and 33.5% of our total revenue for the same period, respectively. The Tsugami Japan Group was our largest customer during the Track Record Period. After Listing, we will continue our sales arrangement with the Tsugami Japan Group, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules. Pursuant to the Master Sales Agreement, there is no minimum purchase commitment imposed by us on the Tsugami Japan Group. For more details of our sales to the Tsugami Japan Group, please refer to the section headed “Connected Transactions – Continuing connected transactions – Non-exempt continuing connected transactions – Sales of our CNC high precision machine tools to Tsugami Japan Group” in this prospectus. Since June 2016, we have also been selling our CNC high precision machine tools to Taiwan through our Taiwanese distributor.

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During the Track Record Period, we had been actively engaging in dialogues with Tsugami Japan to obtain the latest updates and future trends in relation to the CNC high precision machine tool markets. We have also sent a few of our sales personnel to Germany and US to gain overseas experiences. Nevertheless, given the growth potential of the CNC high precision machine tool industry in the PRC and taking into account our current capabilities, financials and human and administrative resources and the long history of development and strong client base of the Tsugami Japan Group in the Other Markets, our Directors believe that it would be more commercially sensible for us to continue to focus in the PRC and Taiwan markets. For more details of our business delineation, please refer to the section headed “Relationship with Controlling Shareholder – Independence from our Controlling Shareholder – Operational independence” in this prospectus.

Aftersales services

Our Directors believe that our reputation is built upon our ability to provide quality and effective aftersales services and technical support to our customers and end customers in the PRC and Taiwan to their satisfactions, which in turn, have helped us to maintain strong business relationship with our customers to capture additional sales opportunities and to distinguish us from our competitors. As at 31 March 2017, we had a team of 130 staff under our sales and customer service team to provide aftersales services to our customers and end customers.

We generally provide one year product warranty to end customers through our distributors or to our direct sale customers in relation to the quality defects of our CNC high precision machine tools. We typically attend the production sites of end customers after the delivery of our CNC high precision machine tools to provide aftersales services and training to them within one week upon receiving requests from our customers. With the sales experience and knowledge of our CNC high precision machine tools and their application uses, our customer service personnel are also able to provide preliminary analysis or solutions to end customers in respect to their issues encountered. If the issues cannot be resolved, we will then send our customer service personnel or technical staff from our technical team to conduct on-site examination and repair work and/or exchange parts and components, if necessary. Leveraging our established sales network with our representative and branch offices in 15 different locations in the PRC as liaising points, we strive to send our customer service or technical personnel to end customers within eight hours upon receiving enquiries from them.

We provide training to our distributors to enhance their technical know-how in dealing with minor issues encountered by end customers. We also provide training to end customers in relation to the operation, usage, troubleshooting, maintenance and safety issues of our CNC high precision machine tools sold to them. We believe that such training can help end customers to better understand and minimise the possibility of misuse and malfunctions of our CNC high precision machine tools, which in turn, could reduce and lower their costs of unnecessary repair services.

We communicate with and obtain feedback from our customers and end customers to gain knowledge of their requirements and needs. It is also our policy to analyse and record our customers’ feedback on product enquiries and repair needs for us to continuously improve our CNC high precision machine tools to suit the business needs and requirements of our customers and end customers.

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We generally do not accept return or exchange of our CNC high precision machine tools from our customers, which we believe is in line with the industry practice. For the three years ended 31 March 2015, 2016 and 2017, our warranty expense represented approximately 1.0%, 0.2% and 0.7% of our revenue for the same period, respectively. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material product defects, sales returns or exchanges from our customers.

Pricing

In determining the selling prices of our CNC high precision machine tools to our distributors which serve as our primary sales channels, we generally take into account the factors including our distributors' sales and marketing capabilities, loyalty and customer service quality and our relationship with them, as well as our costs of procurement and production, market competition and the anticipated market trend. We review and adjust our pricing based on these factors and other general market conditions. Pursuant to our distributor management guidelines, our distributors are required to strictly adhere to our pricing guidelines, whereby they are required to follow our recommended selling price range and are not allowed to deliberately raise or lower the selling prices outside our recommended selling price range for their onward sales to end customers. Our distributors are also required to obtain our prior approval if they want to provide larger discount to their customers for specific reasons.

For our sales to the Tsugami Japan Group, the selling prices and gross profit margin of our CNC high precision machine tools were relatively lower as we are not responsible for the sales and marketing, aftersales services and technical support for these machine tools sold. Furthermore, we are generally able to charge for higher selling prices and gross profit margin for our CNC high precision machine tools sold with various specifications and/or customisations as our technical team has to assess and evaluate the application uses and the specific needs and requirements of end customers, select the suitable machine tool types, develop software for application uses of our CNC high precision machine tools according to the operational needs of our customers and/or end customers in order to make various specifications and/or customisations to our CNC high precision machine tools. Given that our CNC high precision machines tools procured by the Tsugami Japan Group were of relatively standard specifications and/or customisations, the selling prices and gross profit margin of the CNC high precision machine tools sold to the Tsugami Japan Group were relatively lower during the Track Record Period. Apart from this, we confirm that we offer no special discount to the Tsugami Japan Group by virtue of the fact that the Tsugami Japan Group is our connected person.

Credit period and payment

We generally do not grant credit period to our customers, except for a few of our major customers that we grant a credit period ranging from 45 to 180 days from the billing date based on their background and operational scale, financial condition, reputation and purchase amount. Further, we typically require our customers to pay us an initial deposit of 10.0% of their total purchase amount for each sales order and pay the rest of the purchase amount to us in full prior to the delivery, except for a few major customers to whom we grant a credit period. For our sales to the Tsugami Japan Group, we generally grant them a credit period up to 60 days.

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Our customers in the PRC generally settle our payment by bank transfer in Renminbi. We also allow some of our customers in the PRC to settle our payment by bank acceptance bills with maturities of no more than 180 days. During the Track Record Period, a substantial portion of our overseas sales to the Tsugami Japan Group was denominated and settled in JPY. In order to better control our foreign exchange risk, we started to invoice part of our sales to the Tsugami Japan Group in Renminbi since May 2016.

CUSTOMISATION AND DEVELOPMENT

We believe that as one of the established foreign-owned CNC high precision machine tool manufacturers in the PRC, it is important for us to keep abreast of the industry technology trends, improve our production technology and techniques and develop CNC high precision machine tools with various specifications and/or customisations to remain competitive in the market and meet evolving demand of our customers and end customers. Leveraging the industrial expertise of Tsugami Japan in the CNC high precision machine tool industry, we have been licensing the Technology from Tsugami Japan to manufacture and provide certain aftersales services for our CNC high precision machine tools. Nevertheless, we have been continuously making efforts in our own customisation and development capabilities to strengthen our production technology standard, improve production techniques, and develop principal parts and components and software for application uses to manufacture our CNC high precision machine tools. As at the Latest Practicable Date, we had 68 registered patents in the PRC, primarily relating to our machine tools and parts and components for the manufacture of CNC high precision machine tools, and six registered copyrights in the PRC in relation to our software for the application uses of our CNC high precision machine tools.

Our technical team is primarily responsible for assessing and evaluating the application uses and specific needs and requirements of our customers and end customers and then providing them with machine tool solutions by selecting the suitable machine tool types or models with relevant specifications and/or customisations. Our technical team also develops software for application uses of our CNC high precision machines tools according to the operational needs of our customers and/or end customers. In addition, our technical team conducts research and feasibility studies and develops and upgrades our principal parts and components and production machinery and equipment for our CNC high precision machines tools in order to better control our production costs and increase our gross margin. As at 31 March 2017, we had 73 staff in our technical team.

Licensing the Trademarks and the Technology from Tsugami Japan

During the Track Record Period, we licensed the Trademarks and the Technology from Tsugami Japan for the production and provision of certain aftersales services for our CNC high precision machine tools. For the three years ended 31 March 2015, 2016 and 2017, our Trademark and Technology licence fees amounted to, in aggregate, approximately RMB93.7 million, RMB58.8 million and RMB74.1 million, respectively. Depending on the models of our CNC high precision machine tools, our Trademark and Technology license fees payable to Tsugami Japan were calculated based on a royalty rate multiplied by the total sales of such model of CNC high precision machine tools. Our industry expert, Frost & Sullivan confirms that such Trademark and Technology licence fees charged by Tsugami Japan are in line with the industry practice.

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Tsugami Japan is currently one of the enterprises in the world that possesses the expertise and advanced technology to produce CNC high precision machine tools with high quality and precision. As we are still at the stage of enhancing our customisation and development capabilities and does not have full capability to develop the Technology by ourselves, our Directors believe that it is commercially sensible and would benefit our Group and Shareholders as a whole to continue to license the Technology from Tsugami Japan. Notwithstanding, we will continue to strengthen our in-house customisation and development capabilities. Pursuant to the Technology Licence Agreement, Tsugami Japan cannot terminate the Technology Licence Agreement unilaterally unless we commit a material breach of the Technology Licence Agreement which is not remedied in accordance with the terms therein. Moreover, in the event that the Technology Licence Agreement is terminated for whatever reason, we are allowed to continue to use the Technology and/or any technical information passed under the Technology Licence Agreement from Tsugami Japan to us for our ordinary course of business and we can retain all documents, technical information and know-how relating to or in connection with the Technology.

Since we are permitted to continue to use the Technology and/or any technical information in respect of the CNC high precision machine tools we are currently manufacturing even if the Technology Licence Agreement is terminated, the production of our existing CNC high precision machine tools will not be materially affected. In addition, as confirmed by Frost & Sullivan, there are alternative suppliers of similar technology available and also similar technology licensing transactions in the PRC market at the licensing rates comparable to our royalty rate of 1.0% or 5.0% to be paid to Tsugami Japan under the Technology Licence Agreement. For more details of alternative suppliers of similar technology available in the PRC market, please refer to the section headed “Industry Overview – Technology” in this prospectus. Based on the above, our Directors believe that termination of the Technology Licence Agreement will not cause material adverse impact on our operations nor will affect the sustainability of our business operations going forward. Furthermore, with our established industrial expertise and reputation accumulated throughout the years, and our customisation and development capabilities and stringent quality control, we believe that we have established our market position and maintained a stable customer base in the PRC CNC high precision machine tool industry. For more details of our licencing of the Trademarks and Technology from Tsugami Japan after Listing, please refer to the section headed “Connected Transactions – Continuing connected transactions with Tsugami Japan – Non-exempt continuing connected transactions – Licencing of the Trademarks and the Technology from Tsugami Japan” in this prospectus.

Development of customised CNC high precision machine tools

We manufacture and sell our CNC high precision machine tools that are of standardised design and specifications to our customers. With our customisation and development capabilities, we are also able to make various specifications and/or customisations to our CNC high precision machine tools to suit the needs and requirements of our customers and/or end customers in the PRC. Furthermore, we have been particularly focusing our efforts to provide our customers and/or end customers with machine tool solutions by selecting the suitable types

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or models of machine tools and developing software for application uses according to their operational needs. For example, we are able to develop specific collet chucks which enable the spindles to better hold metal work pieces in various sizes and shapes while they are in spinning motions. Once we present our solutions to our customers and/or end customers, our technical team will also make machine tool prototypes for demonstration. We will also obtain approval from our customers and/or the end customers before finalising the machine tool drawings and manufacturing procedures.

Our technical team also works closely with our sales and customer service and quality control teams to assess and evaluate our customers and end customers' feedback and needs to understand the market demand and trend on different types of our CNC high precision machine tools. We will also provide such information and feedback to Tsugami Japan, which in turn, will assist us in improving our existing machine tools and developing new machine tools. In future, we plan to continue to strengthen our customisation and development capabilities to provide more value-added and complex specifications and/or customisations to broaden the application uses of our CNC high precision machine tools for end customers engaged in various downstream industries.

Development of parts and components and production machinery and equipment

To increase our competitive advantages in the PRC CNC high precision machine tool industry, we also make significant effort in the customisation and development of our principal parts and components and production machinery and equipment. During the Track Record Period, we procured certain principal parts and components, such as CNC system panels manufactured by the CNC System Panel Manufacturer, from Tsugami Japan to manufacture our CNC high precision machine tools. For more details of our procurement of parts and components from Tsugami Japan, please refer to the section headed "Connected Transactions – Continuing connected transactions with Tsugami Japan – Non-exempt continuing connected transactions – Procurement from Tsugami Japan" in this prospectus. Nevertheless, with our customisation and development capabilities accumulated throughout the years, we have developed and manufactured certain Tsugami Japan Components, such as spindles, since July 2013 in order to reduce our procurement costs and increase our gross profit margin. We have also focused our efforts on developing and modifying some of our production machinery and equipment to enhance our production technology and techniques. We believe our customisation and development capabilities have enabled us to better control our production costs and increase our production efficiency.

PRODUCTION

We manufacture and offer our CNC high precision machine tools that are of standardised design and specifications to our customers. Our technical team also makes certain specifications and/or customisations to our CNC high precision machine tools based on the application uses and specific needs and requirements of our customers and/or end customers. We are able to achieve a CNC rate of 100% in terms of manufacturing, higher than the average rate of approximately 30% for most of the machine tool manufacturers in China, according to Frost & Sullivan.

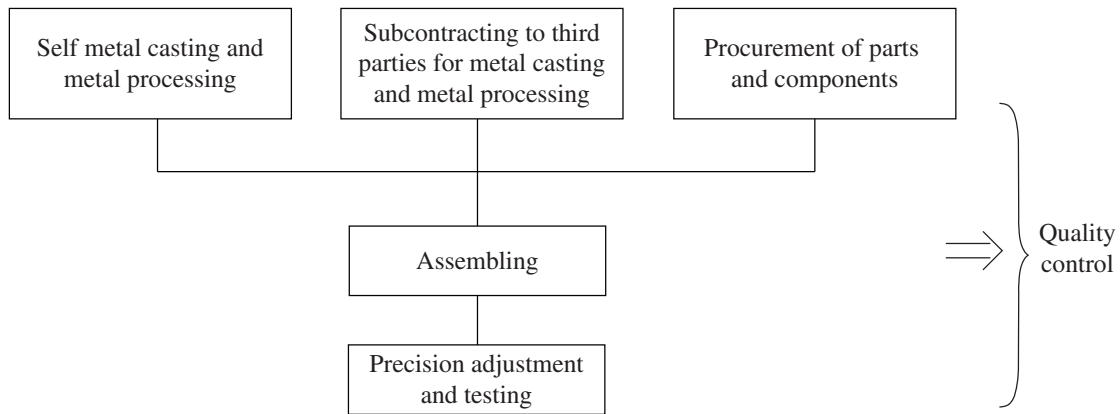
During the Track Record Period, Tsugami Japan had also sent personnel from time to time to provide various onsite technical support and training. We are typically responsible for the local travelling expenses and accommodation of such Japanese personnel outside of Japan associated with such support. For the three years ended 31 March 2015, 2016 and 2017, our fees incurred for such support amounted to approximately RMB2.0 million, RMB1.3 million and RMB1.7 million, respectively. Please also refer to the section headed “Connected Transactions – Continuing connected transactions with Tsugami Japan – Non-exempt continuing connected transactions – Licencing of the Trademarks and the Technology from Tsugami Japan” in this prospectus for more details.

Production workflow

The production process of our CNC high precision machine tools vary model by model. Our production is mainly divided into three major steps, being self or subcontracting metal processing, assembling and precision adjustment and testing. The production lead time (being the time required to manufacture a completely new and standardised unit of CNC high precision machine tool with the above major production process) ranges from approximately 70 to 220 days. The time from the confirmation of the sales orders and making production plans to the delivery of our CNC high precision machine tools (which includes the time required for making specifications and/or customisations to our standardised machine tools) ranges from approximately three to 130 days. In order to ensure the sufficiency of our production capacities and timely delivery of CNC high precision machine tools to our customers, we generally maintain certain units of standardised machine tools for further specifications and/or customisations to expedite the delivery time for the sales orders from our customers.

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For illustrative purpose, the chart below sets out our major production workflow for the manufacture of our CNC high precision machine tools:



Self or subcontracting metal casting and metal processing

After finalising the machine tool drawings and manufacturing procedures, we will conduct various machining, casting and sheet metal processing to cut and bend the metal plates. We also subcontract part of our machining and metal processing to third-party subcontracting partners, all of which are Independent Third Parties, for the purpose of production cost efficiency. For some of our key casting components, such as tool holders, we typically provide our third-party subcontracting partners with raw castings of such components for them to further process according to our specifications and requirement. For the other general components, we generally provide them with component diagrams or drawings (without providing them with the relevant raw materials and castings) for their further processing. We typically require our third-party subcontracting partners to submit quality inspection report for their delivery. Before engaging new subcontracting partners, we also typically carry on-site inspections to evaluate their production capacities and quality management. In November 2010, we established our Shinagawa Precision to principally engage in iron and metal casting, manufacturing and processing of parts and components for metals machinery, in order to better control our production costs and quality standard.

As at 31 March 2017, we had 18 third-party subcontracting partners. We generally select our subcontracting partners based on a number of criteria, including but not limited to, their previous work experience, quality control, production capacities and pricing. We typically enter into purchase orders with our subcontracting partners for our subcontracting work. The material terms of the purchase orders primarily include the specifications of the subcontracting work to be performed, the price, the delivery date and location, the credit period and the payment method. For the three years ended 31 March 2015, 2016 and 2017, our subcontracting fees amounted to approximately RMB67.6 million, RMB35.4 million and RMB46.4 million, respectively, representing approximately 4.1%, 3.1% and 3.4% of our total cost of sales and approximately 24.5%, 18.7% and 20.3% of our total production overhead costs for the same periods, respectively.

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Assembling

We assemble all necessary parts and components, such as CNC system panels, spindles, lathe beds, rails, ball screws and other processed parts, produced by ourselves or procured from the third-party suppliers onto our machine tools.

Precision adjustment and testing

As we believe our CNC high precision machine tools perform critical function in the production process of end customers engaged in various downstream industries, we place great emphasis on precision production and quality control. We perform precision adjustment and testing throughout our production process and on our principal parts and components, such as CNC system panels, spindles, lathe beds and rails, as these principal parts components determine the precision level of our CNC machine tools which distinguish us from our competitors. We also conduct various performance test, such as oil leak test, and conduct appearance examination on our machine tools. Our quality control team is typically in charge of the final inspection of our CNC high precision machine tools before delivery, and we generally have a standardised quality control checklist for all our CNC high precision machine tools to be delivered.

We adopt a stringent production process where we have production handbooks setting out details and explanatory notes for our production process. We will review our production handbooks from time to time to ensure the accuracy of and to make appropriate adjustments to our production process. It is also our policy to carry out quality control throughout our entire production process as we are committed to providing high quality and precision CNC machine tools to our customers and end customers. Please also refer to the section headed “Business – Quality control” in this prospectus for further details.

Production plans

We typically make our production plans based on our production schedules, inventories and sales orders (including our anticipated sales orders) in a few months’ time. To effectively control our risk exposure to excess production and inventory, our production, procurement and inventory control teams will together review our production plans and make adjustments to our production volume, production schedules and procurement where necessary.

Production plants

We manufacture all of our CNC high precision machine tools at our Pinghu Production Plants located in Pinghu, Zhejiang province, the PRC, with a total site area of approximately 141,921 sq. m. and total gross floor area of approximately 89,417 sq. m. Our Pinghu Production Plants currently consist of four major production plants, of which (i) production plant one principally engages in machining processing, including rough machining and precision casting, and assembling of our CNC high precision machine tools; (ii) production plant two principally engages in assembling of our precision turret machines and processing

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and assembling of principal parts and components, such as spindles; (iii) production plant three is principally used by Shinagawa Precision and principally engages in iron and metal casting, manufacturing and processing of parts and components for metals machinery; and (iv) production plant four is currently used as our warehouse.

As at 31 March 2017, we had a total of 895 production staff members at our Pinghu Production Plants. For illustrative purpose only, sets out below are the designed production capacity, actual production volume and approximate utilisation rate for our production at our Pinghu Production Plants for the periods indicated:

	Year ended 31 March		
	2015	2016	2017
Designed production capacity ⁽¹⁾ (units) . . .	6,000	6,000	6,000
Actual production volume (units)	6,599 ⁽³⁾	4,476	5,417
Utilisation rate ⁽²⁾ (%)	110.0 ⁽³⁾	74.6	90.3

Notes:

1. For illustration purpose only, our designed production capacity is calculated based on the maximum number of spindles (one of the principal parts and components used for the manufacture of our CNC high precision machine tools) that we can produce per month. In this regard, the calculation of our designed production capacity has generally taken into account (i) 20 operating hours per working day (inclusive of the switching time of production machinery and equipment for manufacturing different machine tools); (ii) 25 working days per month; (iii) the processing time needed for the grinding process for spindles to be assembled into our CNC high precision machine tools; (iv) the number of grinding machines we have for producing the spindles; (v) the number of spindles required for our CNC high precision machine tools; and (vi) the fluctuations of the demand and sales of the PRC CNC high precision machine tool industry and the production buffer that we maintain.
2. For illustration purpose only, the utilisation rate is calculated by dividing the actual production volume by the designed production capacity for the same financial year, which is calculated based on the assumptions as set out above.
3. We typically need to switch and use different production machinery and equipment to manufacture different models of CNC high precision machine tools during our production process. On the basis of 20 operating hours per working day (inclusive of the switching time of production machinery and equipment for manufacturing different machine tools), the switching time for different production machinery and equipment during our production process would, to a certain extent, affect our utilisation rate and actual production volume of CNC high precision machine tools that we can manufacture. For the year ended 31 March 2015, as the Relevant Manufacturers required a large volume of similar models of CNC high precision machine tools, we were able to reduce the switching time for different production machinery and equipment during our production process and spend such switching time on manufacturing machine tools. Hence, our utilisation rate and actual production volume both increased for the year ended 31 March 2015.

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Major production machinery and equipment

Our major suppliers for production machinery and equipment are global established industrial players. In future, we may also procure certain advanced production machinery and equipment from Tsugami Japan for manufacturing our CNC high precision machine tools. For more details of our procurement from Tsugami Japan, please refer to the section headed “Connected Transactions – Continuing connected transactions – Non-exempt continuing connected transactions – Procurement from Tsugami Japan” in this prospectus.

Our major production machinery and equipment mainly comprise machine tools for processing various parts and components for the manufacture of our CNC high precision machine tools. The table below sets out a summary of our self-owned major production machinery and equipment at our Pinghu Production Plants as at 31 March 2017:

No.	Equipment	Quantity (units)	Purchase period	Expected useful life (years)	Average residual useful life (years)
1.	Vertical/horizontal machining centres	55	April 2004 to March 2016	10	5.0
2.	Grinding machines	44	April 2008 to March 2016	10	6.4
3.	Automatic turning machines	32	April 2007 to March 2016	10	5.5
4.	Surface grinding machines	15	April 2004 to March 2017	10	4.7
5.	Five-sided machining equipment	8	April 2009 to March 2016	10	5.0
6.	Sheet metal machining equipment	6	April 2009 to March 2013	10	3.0
7.	Electrical discharge machining equipment	4	April 2010 to March 2014	10	4.5
8.	Gun drilling machining equipment	3	April 2012 to March 2014	10	6.2
9.	Cutting machines	3	April 2009 to March 2011	10	2.5
10.	Milling planers	1	March 2012	10	5.0

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Throughout the years, we have also made continuous efforts to design and develop customised production machinery and equipment to enhance our production technology and process. We believe that our production machinery and equipment and our customisation and development capabilities have enabled us to better control our production cost and increase our production efficiency to ensure our competitiveness in the PRC CNC high precision machine tool industry.

Repair and maintenance

Machinery maintenance is carried out regularly by us in accordance with our internal standards. Such internal standards are formulated after taking into account the technical, engineering and other specific requirements and procedures set out in the operation manuals of the relevant production machinery and equipment and the actual work flow in our production. These measures are in place to avoid unexpected failure and stoppage and maximise our production efficiency. We regularly conduct maintenance on our major production machinery and equipment depending on their nature and characteristics. We also conduct daily check-up on our frequently used production machinery and equipment, including pressure, lubricant oil and noise, to prevent any major production disruption. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material unexpected disruption of operation as a result of any material failure of production machinery and equipment. Our repair and maintenance expenses amounted to approximately RMB3.7 million, RMB4.7 million and RMB4.6 million for the three years ended 31 March 2015, 2016 and 2017, respectively.

Future expansion plan

According to Frost & Sullivan, the revenue and sales volume of the PRC CNC high precision machine tool are expected to continue to grow at a CAGR of approximately 5.7% and 6.9%, respectively, from 2016 to 2021, due to the development of various downstream industries in the PRC, such as industries of IT and electronic products and automobile, and favourable PRC government policies on the CNC high precision machine tool industry. As such, we expect our business will continue to grow as we believe our ability to consistently provide high precision and quality CNC high precision machine tools and effective customer services will help us to earn recurring business from our customers.

In order to cater for the future development of our Group to meet the demand and requirements of our customers as well as end customers in both of the PRC and the Other Markets, we plan to continue to upgrade and expand our production facilities and capacities at our Pinghu Production Plants. In May 2014, we purchased a new piece of land and auxiliary properties, with a total site area of approximately 46,666 sq. m., where our production plant four is currently located and primarily used as our warehouse. We plan to rebuild and renovate part of our production plant four to particularly enhance our production process of assembling.

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We have implemented our expansion plan based on our current and forecast business operation and performance and the expected growth of the PRC CNC high precision machine tool industry in terms of sales volume at a CAGR of approximately 6.9% from 2016 to 2021, according to Frost & Sullivan. Also, apart from our high utilisation rate of approximately 110.0% for the year ended 31 March 2015 as we provided a large volume of similar models of CNC high precision machine tools for the Relevant Manufacturers, our utilisation rate increased from approximately 74.6% for the year ended 31 March 2016 to approximately 90.3% for the year ended 31 March 2017 due to our continuous business expansion in the PRC. As such, we plan to incur approximately RMB15.4 million to purchase and replace production machinery and equipment, including eight grinding machines, one horizontal machining centre and one chuck heat treatment device (which helps to heat up the materials of the chunks in order to increase their hardness to achieve high wear resistance and reciprocating accuracy), for our Pinghu Production Plants to enhance our production capacities and better control our subcontracting manufacturing. Further, we plan to incur approximately RMB37.5 million to rebuild and renovate part of our production plant four. We expect to commence the construction work at our production plant four in September 2017 and complete by July 2018. We expect that the total annual designed production capacity of our Pinghu Production Plants will increase from approximately 6,000 units for the year ended 31 March 2016 to approximately 7,200 units for the year ending 31 March 2020 and the total annual related depreciation expenses following such expansion are expected to increase by approximately RMB3.0 million. To strengthen our sales and customer services, further expanding our sales network and increasing our market penetration in the PRC, we also plan to incur approximately RMB1.5 million to establish two flagship showrooms to showcase our CNC high precision machine tools in Tianjin and Wuhan and establish five customer services centres in Changchun, Taizhou, Changsha, Chengdu and Guangzhou. The planned aggregate amount for our expansion plan mentioned above are estimated to be approximately RMB54.4 million, which will be funded by the net proceeds from the Global Offering. Please also refer to the sections “Financial Information – Capital expenditures – Planned capital expenditures” and “Future Plans and Use of Proceeds” in this prospectus for more details.

Our expansion plan may result in a number of risks, including but not limited to, over-capacity and significant increases in depreciation and amortisation expenses arising from certain of our production machinery and equipment, our revenue and profit may not increase in proportion to our increased production capacity and expansion. Please refer to the section headed “Risk Factors – Risks relating to our business – Further expansion of our Pinghu Production Plants may not be successful as we have planned or such expansion may result in over-capacity or significant increases in depreciation and amortisation, which may materially and adversely affect our business, results of operations and financial condition” in this prospectus for more details. However, we believe that we will be able to rationalise our management and resources and maintain or improve our cost structure, liquidity, gross profit margins and competitiveness, and do not expect our expansion plan to have any significant impact on our risk profiles and liquidity. We also believe that our expansion plan will enable us to cope with the expected increase in future demand and increase our revenue and profitability, which in turn will allow us to further strengthen our current market position in the PRC CNC high precision machine tool industry.

PROCUREMENT**Parts and components**

The principal parts and components we use in the manufacture of our CNC high precision machine tools are CNC system panels, spindles, lathe beds, rails, ball screws and other processed metal parts. For the three years ended 31 March 2015, 2016 and 2017, our cost of parts and components was approximately RMB1,297.2 million, RMB878.2 million and RMB1,032.8 million, respectively, representing approximately 78.6%, 77.0% and 76.8% of our total cost of sales for the same periods, respectively. Please refer to the section headed “Financial Information – Principal income statement components – Cost of sales” in this prospectus for more details and also the sensitivity analysis of our profit in relation to the fluctuation of our costs of parts and components during the Track Record Period.

Our suppliers

During the Track Record Period, we procured certain of our principal parts and components, including CNC system panels manufactured by the CNC System Panel Manufacturer, from Tsugami Japan, which was our largest supplier during the Track Record Period. For the three years ended 31 March 2015, 2016 and 2017, our purchase costs of parts and components from Tsugami Japan amounted to approximately RMB508.7 million, RMB244.1 million and RMB319.8 million, respectively, representing approximately 32.9%, 29.1% and 28.2% of our total purchases for the same periods, respectively. For more details of our procurement from Tsugami Japan, please refer to the section headed “Connected Transactions – Continuing connected transactions – Non-exempt continuing connected transactions – Procurement from Tsugami Japan” in this prospectus.

We procured most of the CNC system panels, which were the largest components of our costs of parts and components, from Tsugami Japan during the Track Record Period. For the three years ended 31 March 2015, 2016 and 2017, our procurement of CNC system panels from Tsugami Japan amounted to approximately RMB360.0 million, RMB205.8 million and RMB250.0 million, respectively, representing approximately 23.3%, 24.6% and 22.0% of our total purchases for the same period, respectively. Our Directors believed that the prices at which we procured the CNC system panels from Tsugami Japan would be more favourable than the prices at which we procured directly from the CNC System Panel Manufacturer, owing to the existing business relationship between Tsugami Japan and the CNC System Panel Manufacturer and the large amount of CNC system panels procured by the members of the Tsugami Japan Group for their production. To the best knowledge of our Directors, Tsugami Japan sold the CNC system panels to us at cost (in addition to certain handling and administrative charges borne by us). Since December 2016, we have directly procured CNC system panels from the CNC System Panel PRC Supplier instead of procuring through Tsugami Japan for all our CNC high precision machine tools sold in China. For our CNC high precision machine tools sold to overseas (including Taiwan), a world-wide warranty will be required for the CNC system panels purchased from the CNC System Panel PRC Supplier to cover the overseas usage of the CNC system panels. To the best knowledge of our Directors, given that

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the CNC System Panel PRC Supplier is not able to provide world-wide warranty for its CNC system panels sold in China at a relatively competitive pricing, we decided to continue to procure CNC system panels from the CNC System Panel Manufacturer through Tsugami Japan for these machine tools to be sold to overseas (including Taiwan). Our Directors confirm that as we are able to (i) purchase CNC system panels from the CNC System Panel PRC Supplier for our CNC high precision machine tools sold or to be sold in the PRC at a relatively competitive pricing; and (ii) continue to enjoy favourable prices for the CNC system panels purchased from the CNC System Panel Manufacturer through Tsugami Japan for our CNC high precision machine tools sold or to be sold in overseas (including Taiwan), there is no adverse impact on our cost structure resulting from the change in our procurement strategy.

During the Track Record Period, we also procured the Other Components from Tsugami Japan, which included the Tsugami Japan Components and the Third-party Components. For the Tsugami Japan Components, our Directors considered that they were components that were uniquely designed for the use of our CNC high precision machines tools. For the three years ended 31 March 2015, 2016 and 2017, our procurement of the Tsugami Japan Components from Tsugami Japan amounted to approximately RMB109.6 million, RMB33.1 million and RMB60.1 million, respectively, representing approximately 7.1%, 3.9% and 5.3% of our total purchases for the same period, respectively. For the Third-party Components, our Directors also considered that due to the long-term and strong business relationship between Tsugami Japan and these third-party suppliers and the quality and the large amount of the Third-party Components procured by the members of the Tsugami Japan Group for their production, Tsugami Japan was able to secure a comparatively stable supply of these Third-party Components at favourable prices. Nevertheless, with our production and customisation and development capabilities accumulated throughout the years, we have developed and manufactured certain Tsugami Japan Components since July 2013 and have also increased our purchases of certain Third-party Components from domestic suppliers at relatively competitive pricing. For the three years ended 31 March 2015, 2016 and 2017, our procurement of the Third-party Components from Tsugami Japan amounted to approximately RMB39.1 million, RMB5.2 million and RMB9.8 million, respectively, representing approximately 2.5%, 0.6% and 0.9% of our total purchases for the same period, respectively. During the Track Record Period, we had significantly reduced our procurement of parts and components from Tsugami Japan from approximately RMB508.7 million for the year ended 31 March 2015 to approximately RMB319.8 million for the year ended 31 March 2017. We also intend to cease our procurement of the Third-party Components from Tsugami Japan after Listing and by no later than March 2018.

We have established stable and long-term business relationship with our suppliers. As at 31 March 2017, we had more than six years of business relationship with most of our top five suppliers. For the three years ended 31 March 2015, 2016 and 2017, purchases from our top five suppliers accounted for approximately 47.1%, 41.6% and 47.8% of our total purchases for the same periods, respectively.

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The tables below set forth the basic information of our top five suppliers during the Track Record Period:

For the year ended 31 March 2015

Supplier	Major products procured from the supplier	Approximate% of our total purchases	Background of the supplier	Principal business of the supplier	Years of business relationship as at 31 March 2015 (approximate)	Credit period
Tsugami Japan ⁽¹⁾ . . .	CNC system panels, manufactured by the CNC System Panel Manufacturer, and the Other Components	32.9	Our Controlling Shareholder	Design, research, development, manufacture and sales of CNC high precision machine tools	More than 10 years	Up to 90 days
Supplier A . . .	Machine parts and components	4.6	A company established in the PRC	Manufacturing	More than 6 years	Up to 90 days
Supplier B . . .	Machine parts and components	4.0	A company established in the PRC	Manufacturing	More than 6 years	Up to 90 days
Supplier C ⁽²⁾ . . .	Machine parts and components	3.1	A company established in the PRC	Manufacturing	More than 4 years	Up to 90 days
Supplier D . . .	Machine parts and components	2.5	A company established in the PRC	Manufacturing	More than 9 years	Up to 30 days

Notes:

1. Tsugami Japan was also one of our top five customers during the Track Record Period.
2. Supplier C was also our customer during the Track Record Period, sales to which accounted for less than 0.5% of our total revenue for each of the financial years during the Track Record Period.

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For the year ended 31 March 2016

Supplier	Major products procured from the supplier	Approximate% of our total purchases	Background of the supplier	Principal business of the supplier	Years of business relationship as at 31 March 2016 (approximate)	Credit period
Tsugami Japan ⁽¹⁾	CNC system panels, manufactured by the CNC System Panel Manufacturer, and the Other Components	29.1	Our Controlling Shareholder	Design, research, development, manufacture and sales of CNC high precision machine tools	More than 11 years	Up to 90 days
Supplier A	Machine parts and components	5.6	A company established in the PRC	Manufacturing	More than 7 years	Up to 90 days
Supplier D ⁽²⁾	Machine parts and components	2.6	A company established in the PRC	Manufacturing	More than 10 years	Up to 30 days
Supplier C ⁽³⁾	Machine parts and components	2.4	A company established in the PRC	Manufacturing	More than 5 years	Up to 90 days
Supplier E	Machine parts and components	1.9	A company established in the PRC	Manufacturing	More than 12 years	Up to 60 days

Notes:

1. Tsugami Japan was also one of our top five customers during the Track Record Period.
2. Supplier D was also our customer during the Track Record Period, sales to which accounted for less than 0.5% of our total revenue for each of the financial years during the Track Record Period.
3. Supplier C was also our customer during the Track Record Period, sales to which accounted for less than 0.5% of our total revenue for each of the financial years during the Track Record Period.

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For the year ended 31 March 2017

Supplier	Major products procured from the supplier	Approximate% of our total purchases	Background of the supplier	Principal business of the supplier	Years of business relationship as at 31 March 2017 (approximate)	Credit period
Tsugami Japan ⁽¹⁾	CNC system panels, manufactured by the CNC System Panel Manufacturer, and the Other Components	28.2	Our Controlling Shareholder	Design, research, development, manufacture and sales of CNC high precision machine tools	More than 12 years	Up to 90 days
CNC System Panel PRC Supplier	CNC system panels	7.1	A company established in the PRC	Sale and manufacturing of machine parts and components	More than 6 years	Up to 30 days
Supplier A	Machine parts and components	5.8	A company established in the PRC	Manufacturing	More than 8 years	Up to 90 days
Supplier C ⁽²⁾	Machine parts and components	4.4	A company established in the PRC	Manufacturing	More than 6 years	Up to 90 days
Supplier F ⁽³⁾	Machine parts and components	2.3	A company established in the PRC	Manufacturing	More than 6 years	Up to 90 days

Notes:

1. Tsugami Japan was also one of our top five customers during the Track Record Period.
2. Supplier C was also our customer during the Track Record Period, sales to which accounted for less than 0.5% of our total revenue for each of the financial years during the Track Record Period.
3. Supplier F was also our customer during the Track Record Period, sales to which accounted for less than 0.5% of our total revenue for each of the financial years during the Track Record Period.

In selecting our suppliers, we typically evaluate the product quality management, manufacturing capabilities and defective product rates for their parts and the components. During the selection process, it is our policy to select a list of suppliers and then conduct on-site quality inspection at the factories of such selected suppliers before they can become our suppliers. Our procurement team will also work with our inventory management team to source parts and components from the most appropriate suppliers.

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We generally enter into purchase orders with our suppliers for each of our purchases. Set out below are the material terms of such purchase orders:

- *Specification* – The purchase orders typically set out the ordering numbers, names, specifications, prices, quantities, value and delivery dates of the parts and components we require.
- *Delivery* – Our suppliers are required to deliver the parts and components to our Pinghu Production Plants.
- *Payment* – Our suppliers generally grant us a credit term up to 90 days from the issuing date of the invoices.
- *Termination* – We are generally entitled to terminate our purchase orders for late delivery.

Management of our suppliers

Our suppliers are required to manufacture parts and components in accordance with our product and technical specifications. Our suppliers are also required to provide quality inspection reports to us for their delivery. Our procurement and quality control teams typically carry on-site inspection on the production process and quality control systems of our suppliers from time to time. We typically assess our suppliers based on the quality of the parts and components supplied to us and the punctuality in delivering us the required parts and components. We also evaluate our suppliers based on their ability to provide rectification measures to us within a certain period of time once they receive our complaints on product quality.

Save for our purchases from Tsugami Japan, we generally select two or three suppliers for most of our principal parts and components based on price, quality and delivery schedule. We believe that this minimises the risk of insufficient parts or components when our selected supplier fails to meet our standards. Further, we may examine and obtain copies of their business licenses and tax registration certificates during our selection process.

Credit period and payment

We settle our purchases from domestic suppliers in Renminbi. We may also endorse part of the bank acceptance bills received from our PRC customers to our domestic suppliers for the settlement of our payables from time to time. We generally settle our payments by bank transfer. Our domestic suppliers generally grant us a credit period up to 90 days from the date of the invoices. Tsugami Japan generally grants us a credit period up to 90 days from the date of custom clearance.

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During the Track Record Period, a substantial portion of our procurement from Tsugami Japan and our sales to the Tsugami Japan Group was denominated in JPY. In order to better control our foreign exchange risk, we started to settle part of our overseas procurement from Tsugami Japan in Renminbi instead of JPY since May 2016. For more details of our payment settlement of our overseas sales to the Tsugami Japan Group, please see the section headed “Business – Sales – Credit period and payment” in this prospectus.

To the best knowledge of our Directors, save for Tsugami Japan, none of our Directors or their respective close associates or any of our existing Shareholders who owned 5% or more of the issued share capital of our Company, had any interest in any of our top five suppliers during the Track Record Period. To the best knowledge of our Directors, save and except for Tsugami Japan, Supplier C, Supplier D and Supplier F (our sales to each of Supplier C, Supplier D and Supplier F accounted for less than 0.5% of our total revenue for each of the financial years during the Track Record Period, and to the best knowledge of our Directors, these suppliers also need to use CNC high precision machine tools in their business operations for manufacturing their own products, and hence, purchased certain CNC high precision machine tools from us during the Track Record Period), none of our five largest suppliers during the Track Record Period was a customer of our Group. We had not experienced any material disruption, disputes or delay in relation to the supply of our raw materials and components with our suppliers during the Track Record Period and up to the Latest Practicable Date.

QUALITY CONTROL

We place great emphasis on and endeavour to constantly ensure the high quality of our CNC high precision machine tools and customer services. We have obtained the ISO 9001 certification since 2011 as a result of our stringent production process and quality control. Certain models of our CNC high precision machine tools also satisfy the safety standards required for machine tools to be sold in Europe.

We implement stringent quality control system and our quality control measures start early in the customisation and development stage and throughout our various stages of operational process, including (i) inspection of incoming parts and components; (ii) testing of work-in progress; (iii) inspection of finished products and (iv) inspection of production machinery and equipment. As at 31 March 2017, we had 33 staff in our quality control team.

Our quality control team typically inspects the specifications and parameters of our incoming parts and components based on the initial design drawings and sketches of our machine tools. We also conduct sample check on our incoming parts and components after their delivery to our warehouse. Our suppliers, including our third-party subcontracting partners, are required to manufacture parts and components in accordance with our specifications and they will provide quality inspection reports to us for their delivery. We will also carry on-site inspection from time to time to evaluate the production process and quality control systems of our suppliers.

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Our quality control team monitors the quality and precision level of our work-in-progress to ensure that our entire production process complies with our product specifications and technical requirements. We also conduct various functional tests and analyse the problems arising during our production process to ensure that our semi-finished machine tools comply with the requisite quality and performance standards.

Further, our quality control team is also in charge of the final inspection of our CNC high precision machine tools. We typically conduct various performance tests, such as oil leak testing, and appearance examination before the delivery of our CNC high precision machine tools to end customers. We generally adopt a standardised quality control checklist according to the type of our CNC high precision machine tools to be delivered.

We regularly review and evaluate our quality control system and submit the product quality reports to our management. Further, our ISO 9001 certification indicates that we have established a systematic approach to quality management, which serves to provide an objective standard against which our customers can assess the quality of our management process. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material complaints on us or our products from our customers and end customers which had caused a material adverse impact on our business or our reputation.

INVENTORY MANAGEMENT

Our inventory primarily comprises of parts and components, work in progress and our completed machine tools, all of which are stored in our warehouse at Pinghu Production Plants. We have designated personnel who use a centrally-administered ERP system to track and systematically manage our inventory. In order to ensure the sufficiency of our production capacities and timely delivery of our CNC high precision machine tools to our customers, we generally maintain an inventory level of certain principal parts and components procured from overseas, such as CNC system panels, for around three to six months based on our production plans. In addition, we also maintain certain units of standardised machine tools for further specifications and/or customisations to expedite the delivery time for the sales orders received from our customers.

As at 31 March 2015, 2016 and 2017, our closing balance of our inventories amounted to approximately RMB720.6 million, RMB508.1 million and RMB479.9 million, respectively, which accounted for approximately 75.3%, 69.8% and 47.3% of our total current assets, respectively. Our average inventory turnover days were approximately 163, 197 and 134 days for the three years ended 31 March 2015, 2016 and 2017, respectively. For more details of our average inventory turnover days, please refer to the section headed “Financial Information – Certain items of consolidated statements of financial position – Inventories” in this prospectus.

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DELIVERY AND LOGISTICS

Parts and components supplied by our suppliers are delivered to our Pinghu Production Plants at our suppliers' own costs and risks. For the delivery of our CNC high precision machine tools, our customers in the PRC can either choose to pick them up from our warehouse at Pinghu Production Plants, or we can arrange the delivery of our CNC high precision machine tools to locations designated by our customers upon requests. Our sales to the Tsugami Japan Group are generally sold on free on board basis. We are typically responsible for arranging transportation from our Pinghu Production Plants to designated ports in the PRC for further shipping arrangements or deliver our CNC high precision machine tools to the designated overseas countries upon the instructions of the Tsugami Japan Group. We are responsible for the costs arising from maintaining carriage insurance coverage for all delivery of our CNC high precision machine tools.

During the Track Record Period, we engaged external logistic companies to deliver our CNC high precision machine tools. Pursuant to the agreements entered into between us and the logistic companies, the logistic companies are responsible for any direct losses caused by them during the delivery of our CNC high precision machine tools. For the three years ended 31 March 2015, 2016 and 2017, our cost in engaging logistic companies and maintaining carriage insurance coverage were approximately RMB21.7 million, RMB19.1 million and RMB18.6 million, respectively. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material disruption or damage in relation to the delivery of our CNC high precision machine tools.

INFORMATION SYSTEMS

We believe that well-implemented information systems are critical in improving our efficiency in administering and operating our business. We have made continuous investment to maintain comprehensive information systems which integrate the internal and external management information across various aspects of our business operations. For the three years ended 31 March 2015, 2016 and 2017, we invested an aggregated amount of nil, approximately RMB0.8 million and RMB0.9 million in implementing, operating and maintaining our information systems, respectively.

Our ERP system enables us to manage our procurement, sales, inventory and financial analysis and reporting, which in turn, has allowed us to manage and optimise our business process and to improve our operation performance. In future, we will continue to enhance our information systems that enable us to obtain and process information and data on an expedited basis, support our decision-making, increase our production efficiency, all of which will in turn help us to improve our cooperation with our customers and suppliers and increase our revenue and profitability.

INTELLECTUAL PROPERTY

Patents

In order to protect our intellectual property rights, we obtained 68 registered patents in the PRC, primarily relating to our machine tools and parts and components for the manufacture of CNC high precision machine tools.

Trademarks and other intellectual property rights

As at the Latest Practicable Date, we had in total seven registered trademarks in the PRC and Hong Kong which are material to our business. We have also been licensing the TSUGAMI brand from Tsugami Japan to sell our CNC high precision machine tools. Please also refer to the sections headed “Connected Transactions – Continuing connected transactions – Non-exempt continuing connected transactions – Licencing of the Trademarks and the Technology from Tsugami Japan” in this prospectus for more details of our licensing arrangement of the Trademarks and Technology from Tsugami Japan.

As at the Latest Practicable Date, we also registered six software copyrights in the PRC in relation to the software for application uses of our CNC high precision machine tools. Further, we are the registered proprietor of the domain name (tsugami.com.cn).

In addition to our patented intellectual property rights and trademark, we have licenced the Trademarks and the Technology from Tsugami Japan for the production and provision of certain aftersales services for our CNC high precision machine tools. For the three years ended 31 March 2015, 2016 and 2017, our Trademark and Technology licence fees amounted to, in aggregate, approximately RMB93.7 million, RMB58.8 million and RMB74.1 million, respectively. After Listing, licensing the Trademarks and the Technology from Tsugami Japan will constitute continuing connected transactions under Chapter 14A of the Listing Rules. For more details of our continuing licencing of the Trademarks and the Technology from Tsugami Japan, please refer to the sections headed “Connected Transactions – Continuing connected transactions – Non-exempt continuing connected transactions – Licencing of the Trademarks and the Technology from Tsugami Japan” in this prospectus.

For further details of our intellectual property rights, please also see the section headed “Statutory and General Information – 5. Further information about our business – B. Our intellectual property rights” in Appendix V to this prospectus. For risks associated with our intellectual property rights, please see the section headed “Risk Factors – Risks relating to our business – During the Track Record Period, the Tsugami Japan Group was our largest customer and Tsugami Japan was our largest supplier and we had also licensed the Trademarks and the Technology from Tsugami Japan, and failure to maintain such business arrangements may materially and adversely affect our business, results of operations and financial condition”, “– If the TSUGAMI brand is harmed, our business may be materially and adversely affected” and “– Our products may be subject to counterfeiting, imitation, and/or infringement by third parties” in this prospectus.

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During the Track Record Period and up to the Latest Practicable Date, we had not experienced any infringement and dispute of our intellectual property rights which had a material adverse effect on our business.

EMPLOYEES

As at 31 March 2017, we had 1,368 full-time employees in the PRC, 32 of whom were transferred employees from Tsugami Japan. The following table shows the breakdown of our employees by function:

	Number of employees
Management	34
Sales and customer service team	209
Production	895
Procurement	16
Technical	73
Quality control	33
Shinagawa Precision	70
Finance	12
General, administration and human resources	26
Total:	1,368

The transferred employees from Tsugami Japan are not only familiar with our business operation, but also generally possess extensive experience, knowledge, expertise and/or skill sets in manufacturing the CNC high precision machine tools. The transferred employees typically enter into employment contracts with our Group and establish a direct employment relationship with our Group. For more details of our transferred employees, please refer to the section headed “Directors, Senior Management and Employees – Transferred employees” in this prospectus.

Welfare contribution

Pursuant to applicable PRC laws and regulations, we are required to make contributions for our employees to various social insurance funds, such as pension insurance, medical insurance, work-related injury insurance, maternity insurance and unemployment insurance plans, as well as housing provident funds. As confirmed by our PRC Legal Advisers, we had made full contribution to the social insurance and housing provident fund for all of our employees in the PRC during the Track Record Period and up to the Latest Practicable Date.

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Remuneration

For the three years ended 31 March 2015, 2016 and 2017, we incurred staff costs of approximately RMB132.8 million, RMB128.9 million and RMB131.5 million, respectively, representing approximately 6.5%, 9.5% and 8.0% of our revenue for the same periods, respectively. We review the performance of our employees, the results of which are used in his or her annual salary review and promotion appraisal.

Certain employees are also entitled to participate in our Pre-IPO Share Option Scheme. Please refer to the section headed “Statutory and general information – 8. Pre-IPO Share Option Scheme” in Appendix V to this prospectus for further details. We believe that by offering our employees a shareholding stake in us, we are aligning their interests with that of ours, thereby providing them with additional incentives to improve our performance. We consider our relationship with our employees to be sound.

During the Track Record period and up to the Latest Practicable Date, we had not experienced any strikes, work stoppages or significant labour disputes in the past and had not experienced any significant difficulties in recruiting or retaining qualified employees.

PROPERTY

Owned properties

Our Pinghu Production Plants are located at Nos. 2001, 2008 and 2088 Pingcheng Road, Pinghu Economic and Technology Development District, Zhejiang province, the PRC, and have a total site area of approximately 141,921 sq. m. and a total gross floor area of approximately 89,417 sq. m. Our Pinghu Production Plants comprise four major production plants which houses, among others, our headquarters, production facilities and warehouse. As confirmed by our PRC Legal Advisers, we have obtained all the relevant land certificates and building ownership certificates for our Pinghu Production Plants and have the rights to possess, lease, use, transfer the title of our Pinghu Production Plants.

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Leased properties

As at the Latest Practicable Date, we had 69 lease agreements in the PRC with Independent Third Parties, under which we leased 15 properties with a total gross floor area of approximately 3,633.2 sq. m. as our representative and branch offices and 54 properties with a total gross floor area of approximately 5,536 sq. m. as our employees' dormitories. We also leased the following properties as our representative and branch offices:

<u>Location</u>	<u>Gross floor area (sq. m.)</u>	<u>Lease term</u>
Our branch office in Xiamen	84.1	From 26 June 2017 to 25 June 2019
Our branch office in Shanghai	77.9	From 1 May 2017 to 30 April 2020
Our representative office in Wuhu	90.0	From 10 April 2017 to 9 April 2018
Our branch office in Wuhan	253.0	1 May 2017 to 30 April 2019
Our representative office in Ningbo	120.7	15 May 2017 to 14 May 2018
Our representative office in Xi'an	121.3	From 8 May 2017 to 7 May 2018
Our branch office in Qingdao	150.2	From 1 May 2017 to 30 April 2018
Our branch office in Chongqing	85.6	From 1 April 2017 to 31 March 2018
Our branch office in Shenyang	120.1	13 March 2017 to 12 March 2020
Our representative office in Shenzhen	73.0	From 26 March 2017 to 25 March 2018
Our branch office in Wuxi	906.9	1 October 2016 to 31 July 2019
Our representative office in Dalian	64.2	From 19 March 2017 to 19 March 2018
Our branch office in Dongguan	1,216.2	From 1 April 2016 to 31 March 2019
Our branch office in Tianjin	170.0	From 20 September 2016 to 19 September 2017
Our representative office in Foshan	100.0	1 July 2017 to 1 July 2018

Our PRC Legal Advisers have confirmed that the majority of the lessors possess the valid ownership certificates for the respective premise leased by us. However, seven lessors have failed to produce the title documents in relation to their properties leased by us upon our request. As advised by our PRC Legal Advisers, the lessors who have not produced the title

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documents may have no right to let such properties and hence, the relevant leasing agreements may be deemed invalid. We have requested the relevant lessors to obtain title documents. We will also take certain measures in the future, including review of all lease contracts by the management and require the lessor to provide certificate of title and other relevant information prior to signing the lease contracts. For the properties that the lessors are unable to produce title documents, we plan to vacate such properties once we find suitable replacements.

In addition, certain leasing agreements relating to our leased properties primarily used as dormitories of our employees have not been registered with the relevant PRC authorities. As advised by our PRC Legal Advisers, the lessor and lessee may be requested by the relevant government authorities to register the lease agreements within a specified time limit, failing which a penalty between RMB1,000 and RMB10,000 will be imposed for each of the properties. Our PRC Legal Advisers have confirmed that the leasing agreements entered into between us and these lessors are valid. We are in the process of completing our leasing registration process.

ENVIRONMENTAL PROTECTION

Our operation is subject to the current environmental protection laws and regulations promulgated by the PRC government, a summary of which is set out in the section headed “Regulations – IX. Environmental Protection and Sewage Emission” in this prospectus. The relevant laws and regulations include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), Law of the PRC on Environmental Impact Assessment (《中華人民共和國環境影響評價法》), Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), Detailed Rules for the Implementation of the Water Pollution Prevention and Control of the PRC (《中華人民共和國水污染防治法實施細則》), Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), Law of the PRC on the Prevention and Control of Pollution by Environmental Noise (《中華人民共和國環境噪音污染防治法》) and Law of the PRC on Promoting Clean Production (《中華人民共和國清潔生產促進法》).

During the Track Record Period and up to the Latest Practicable Date, we had not received any notice or warning in relation to pollution in respect of our production, nor we had been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof.

To ensure that we comply with the applicable environmental laws and regulations and maintain our sustainable mode in environmental protection and management, we have implemented various environmental policies and have been accredited with ISO 14001 environmental management system certification since 2011. As at 31 March 2017, we also

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engaged four third-party authorised waste collectors to collect the liquid and solid waste, such as waste mineral oil, waste emulsion and oil stained rag produced during our operation. The cost of our compliance to the PRC environmental laws and regulations for the three years ended 31 March 2015, 2016 and 2017 was approximately RMB0.5 million, RMB0.5 million and RMB0.5 million, respectively. Based on our Directors' confirmation and on the required environmental certificates and permits issued by the relevant competent local environmental protection authorities of the PRC, our PRC Legal Advisers are of the opinion that we were in full compliance with the relevant environmental laws and regulations as at the Latest Practicable Date.

SAFETY AND LABOUR PROTECTION

We are subject to the relevant PRC laws and regulations regarding labour and production safety. For further details, please refer to the section headed "Regulations" in this prospectus. We have established procedures to ensure the work-place safety for our employees. We have also implemented safety guidelines and operating procedures for our production process and conduct regular and thorough worksite inspection to eliminate potential hazardous work environment.

In addition, we also, from time to time, provide our employees with occupational safety education and training, covering the relevant laws and regulations regarding labour and production safety, risks in relation to our business operation and production facilities as well as measures to reduce such risks so as to enhance their awareness of safety issues, and carry out periodic inspections to verify compliance and institute an internal responsibility system for implementing safe production measures.

We had not experienced any material work-place accident during the Track Record Period and up to the Latest Practicable Date, and our PRC Legal Advisers have confirmed that we are in compliance in all material respects with applicable laws relating to labour safety matter in the PRC.

INSURANCE

Our insurance coverage includes social and commercial insurance for our employees, product liability insurance, property insurance and carriage insurance. We do not maintain legal expense insurance, business interruption insurance, pollution insurance, third-party liability insurance or insurance for key employees as maintenance of such insurance is not, as confirmed by our PRC Legal Advisers, a mandatory legal requirement in the PRC nor is it contrary to the industry practice in the PRC. We consider our current insurance coverage to be adequate and is in line with industry practice as we have maintained insurance policies which are mandatory under relevant PRC laws and regulations and in accordance with the industry practice.

During the Track Record Period and up to the Latest Practicable Date, we had not made, neither had we been the subject of, any insurance claims which are of a material nature to our Group. For our risks associated with lack of business insurance coverage, please refer to the section headed "Risk Factors – Risks relating to our business – Lack of business insurance coverage may incur substantial costs for us" in this prospectus.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

We are subject to laws, regulations and supervision by different levels of regulatory authorities in the PRC and are required to maintain certain licences, permits and approvals in order to operate our facilities and conduct our business. A summary of such relevant PRC laws and regulations which our business operations are subject to is set out in the section headed “Regulations” in this prospectus. Our PRC Legal Advisers have confirmed that we have obtained all relevant licences, permits and approvals for our business operations in the PRC and such licences, permits and approvals are valid and remain in effect as at the Latest Practicable Date. Our PRC Legal Advisers have also confirmed that there will be no material legal impediments to renew our current licences, permits and approvals for our business operations.

As at the Latest Practicable Date, neither our Company nor any of its subsidiaries were involved in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group.

INTERNAL CONTROL

It is the responsibility of our Board to ensure that the Company maintains sound and effective internal controls to safeguard our Shareholders’ investment and the Group’s assets at all times. We have adopted, or expect to adopt before the Listing, a series of internal control policies and procedures designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- *Code of Conduct* – Our code of conduct explicitly communicates to each employee our values, acceptable criteria for decision-making and our ground rules for behaviour.
- *Internal Audit* – Our internal audit function regularly monitors key controls and procedures in order to assure our management and Board that the internal control system is functioning as intended. The Audit Committee of our Board is responsible for supervising our internal audit function.
- *Compliance with Listing Rules and relevant laws and regulations* – We will continue to monitor our compliance with relevant laws and regulations and our senior management team will work closely with our employees to implement actions required to ensure our compliance with relevant laws and regulations. We will also continue to arrange various trainings to be provided by Hong Kong legal advisers to our Directors, senior management and employees on the Listing Rules, including but not limited to aspects related to corporate governance and connected transactions, and by our PRC Legal Advisers on PRC laws and regulations.

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RISK MANAGEMENT

The ultimate goal of our risk management process is to bring focus and effort to the issues in our business operations that create impediments to our success. Our risk management process starts with identifying the major risks associated with our corporate strategy, goals and business operation. We adopted risk management policies to assess our risks in terms of their likelihood and potential impact, and then prioritise and pair each risk with a mitigation plan. We provide training to our employees and encourage an all-embracing culture of risk management ensuring that all employees are aware of and responsible for managing risks. Each of our operating departments is responsible for identifying and analysing risks associated with its function.

Our audit personnel, the Audit Committee of, and ultimately our Board supervise the implementation of our risk management policy at the corporate level by bringing together each operating department, such as customisation and development, quality control, procurement and sales, to collaborate on risk issues among different functions. For details about the qualifications and experience of the members of the Audit Committee of and our Board, please refer to the section headed “Directors, Senior Management and Employees” in this prospectus. The following table sets out some of the primary risks relating to our business and our existing risk management measures:

Risk identified	Our risk management measures and procedures
Stable supply of raw materials and components	<ul style="list-style-type: none">• We continuously make efforts in our customisation and development capabilities to self-manufacture certain principal parts and components.• We keep exploring and developing quality domestic suppliers and have established internal standards to select and evaluate our suppliers.
Working capital/cash flow management	<ul style="list-style-type: none">• We perform credit evaluations on all customers requiring credit terms based on their history of making payments and current ability to pay, and take into account information specific to our customers and end customers as well as pertaining to the economic environment and industries in which our customers and end customers operate.• We maintain sufficient cash reserve level or banking facilities to fulfil our working capital requirements for at least six months.

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Risk identified

Our risk management measures and procedures

Exchange rate risk

- We currently do not have a hedging policy in place to minimise our foreign exchange exposure. Nevertheless, our management has and will continue to closely monitor our foreign exchange exposure and take appropriate actions, including for example, hedging significant foreign exchange exposure, should the need arise.
- In order to reduce our foreign exchange exposure since May 2016, we have started and gradually settled part of our sales to the Tsugami Japan Group and part of our procurement from Tsugami Japan in Renminbi instead of JPY. For the year ended 31 March 2017, approximately 29.4% of our sales to Tsugami Japan Group and approximately 16.1% of our purchases from Tsugami Japan were denominated in JPY, respectively. For more details of our payment settlement of our overseas sales to the Tsugami Japan Group and our overseas procurement from Tsugami Japan, please refer to the section headed “Business – Sales – Credit period and payment” and “– Procurement – Credit period and payment” in this prospectus.
- We had settled all of our bank loans in other currencies as at the Latest Practicable Date. All of our bank loans are currently denominated in Renminbi. We will continue to closely monitor our foreign exchange exposure for our bank loans denominated in other currencies to keep the net exposure to an acceptable level.

There are various other risks relating to our business and operations and market risks in the ordinary course of our business. For further details, please refer to the sections headed “Risk Factors”, “Financial Information – Factors affecting our results of operations” and “Financial Information – Quantitative and qualitative disclosures about market risks” in this prospectus.

COMPETITION

The CNC high precision machine tool market in the PRC is a competitive field, but the demand for CNC high precision machine tools as compared to the demand for conventional machine tools has been growing steadily in recent years. Such increasing demand are arising from the increasing demand for CNC high precision machine tools from the downstream markets, such as automobile, electronic products, and medical apparatus, to use more efficient CNC high precision machine tools in order to cope with the increasing costs of direct labour. Further, according to Frost & Sullivan, the PRC CNC high precision machine tool market is full of opportunities as the sales ratio of PRC CNC high precision machine tools, being the PRC CNC machine tools sales volume divided by the PRC machine tools sales volume, in 2016 was approximately 24.0%, which was much lower than the sales ratio of the CNC high precision machine tools in Japan and Germany, which was 67.1% and 65.8% in 2016, respectively. According to Frost & Sullivan, the PRC CNC high precision machine tool market will have great potential for future growth.

The PRC CNC high precision machine tool market is led by a small number of major domestic players with the rest of the market highly fragmented. The entry barriers to set up and operate in this market are, considered by our Directors, to be high as advanced technologies and design capacity, substantial capital investment, brand awareness and market reputation as well as experienced management team are required. According to Frost & Sullivan, we have five key success factors compared to our competitors, including: (i) our superior customer services; (ii) our long-term and stable relationship with quality suppliers; (iii) our professional management team; (iv) our Trademarks and Technology licensed from Tsugami Japan and stringent quality control; and (v) our strong sales and sales network. Please refer to the section headed “Industry Overview” in this prospectus for more details.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS WITH TSUGAMI JAPAN

Immediately upon completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised), our Company will be owned as to 75.0% by Tsugami Japan. Hence, upon Listing, Tsugami Japan will be our Controlling Shareholder, and Tsugami Japan and its subsidiaries will be our connected persons. For information of Tsugami Japan, please refer to the section headed “Relationship with Controlling Shareholder” in this prospectus.

The following transactions between our Group and the Tsugami Japan Group, which will continue after the Listing, will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules. These transactions will be subject to annual review, reporting, announcement, circular and/or independent shareholders’ approval requirements.

Non-exempt continuing connected transactions

Licensing of the Trademarks and the Technology from Tsugami Japan

Principal terms

Our Company entered into the Technology Licence Agreement on 4 September 2017 with Tsugami Japan, pursuant to which Tsugami Japan agreed to irrevocably grant to us (i) an exclusive licence to use the Technology necessary for the manufacture of our CNC high precision machine tools and to provide aftersales services in connection with these products; and (ii) as the sole licensee, the right to use the Trademarks in the PRC, Hong Kong and Taiwan, and a non-exclusive licence to use the Trademarks in any regions (excluding the PRC, Hong Kong and Taiwan). Pursuant to the Technology Licence Agreement, Tsugami Japan shall not grant to any third party a licence to use the Trademarks in the PRC, Hong Kong or Taiwan without our prior written consent, and we shall not transfer the licence to use the Trademarks to any third party without the prior written consent of Tsugami Japan. We confirm that such licensed Technology currently covers all of our CNC high precision machine tools. Tsugami Japan shall also provide certain aftersales services to us in connection with such CNC high precision machine tools. The term of the Technology Licence Agreement commences from the Listing Date to 31 March 2020, and the Technology Licence Agreement will be automatically renewed for a successive period of three years thereafter unless notified by our Company to Tsugami Japan by written notice of not less than 30 days before the expiry of the initial term or any subsequent successive periods or otherwise terminated earlier in accordance with the Technology Licence Agreement. Taking into account that (i) the Technology Licence Agreement will be automatically renewed for a successive period of three years thereafter unless notified by our Company in advance or otherwise terminated earlier pursuant to the Technology Licence Agreement, and (ii) Tsugami Japan cannot unilaterally terminate the Technology Licence Agreement without cause, our Directors are of the view that from our Group’s perspective, the Technology Licence Agreement is in effect perpetual at our election in nature. The execution and performance of the Technology Licence Agreement will be subject to the Deed of Non-competition. Pursuant to the Technology Licence Agreement, Tsugami Japan is required to remain as the sole owner of the Trademarks and the Technology during the entire term of the Technology Licence Agreement.

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According to the Technology Licence Agreement, Tsugami Japan shall not unilaterally terminate the Technology Licence Agreement unless we have committed a material breach which is not remedied within a specified period. If the Technology Licence Agreement is terminated for whatever reasons, we will still be allowed to continue to use the Technology and/or any technical information passed under the Technology Licence Agreement for our ordinary course of business, and we will be allowed to retain all documents, technical information and know-how relating to or in connection with the Technology.

Upon reasonable request by Tsugami Japan, to the extent permitted by the Listing Rules or applicable laws and regulations, we will provide to Tsugami Japan information relating to our sales of products for the purpose of calculating the amount of Trademarks and Technology licence fees payable.

Pricing guideline

Depending on the models of our CNC high precision machine tools, the Trademarks and Technology licence fees payable to Tsugami Japan shall be calculated based on a royalty rate of 1.0% or 5.0% multiplied by the total sales of such models of CNC high precision machine tools (excluding tax and other miscellaneous costs and charges). According to the terms of the Technology Licence Agreement, for the older models of our CNC high precision machine tools that we ceased to mass produce, we will be charged at a royalty rate of 1.0%, and for the newer models of our CNC high precision machine tools, we will be charged at a royalty rate of 5.0%. The Trademarks and Technology licence fees will be calculated and paid on a quarterly basis. Frost & Sullivan confirms that the Trademarks and Technology licence fees paid to Tsugami Japan were in line with industry practice.

The aftersales services fees to be charged by Tsugami Japan will be determined based on the daily rate of approximately JPY46,000 multiplied by the total number of working days of the staff of Tsugami Japan.

Historical transaction amounts

For the three years ended 31 March 2015, 2016 and 2017, our Trademarks and Technology licence fees and aftersales services fee paid to Tsugami Japan amounted to, in aggregate, approximately RMB95.7 million, RMB60.1 million and RMB75.8 million, respectively, of which (i) approximately RMB93.7 million, RMB58.8 million and RMB74.1 million were the licence fees (i.e. the full amount of the licence fee paid to Tsugami Japan as disclosed in note 33 of the accountants' report in Appendix I to this prospectus); and (ii) approximately RMB2.0 million, RMB1.3 million and RMB1.7 million were the aftersales services fees (i.e. part of the service fee paid to Tsugami Japan as disclosed in note 33 of the accountants' report in Appendix I to this prospectus) for the same period, respectively.

Annual caps and basis

Our Directors estimate that the aggregate maximum amount in respect of the transactions contemplated under the Technology Licence Agreement (including the Trademarks and Technology licence fees and the aftersales services fee) will not exceed RMB97.0 million,

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RMB106.0 million and RMB116.0 million for the three years ending 31 March 2018, 2019 and 2020, respectively. In arriving at the annual caps, our Directors considered the following factors: (i) the historical Trademarks and Technology licence fees for each model of our CNC high precision machine tools during the Track Record Period; (ii) the royalty rate of 1.0% or 5.0%, which is in line with the industry practice; (iii) the projected growth for the sales of our CNC high precision machine tools for the three years ending 31 March 2018, 2019 and 2020, taking into account, in particular, the projected growth of the PRC and global CNC high precision machine tool industries by revenue at CAGR of approximately 5.7% and 5.2% from 2016 to 2021, respectively, and the orders and agreements on hand for our CNC high precision machine tools with reference to the production and delivery schedule up to the Latest Practicable Date; (iv) the historical aftersales services fees charged; and (v) estimated fluctuation in foreign exchange rates and increase in market price of or demand for our CNC high precision machine tools.

Reasons for and benefits of entering into the Technology Licence Agreement

Our Directors believe that licensing the Trademarks and the Technology from and provision of aftersales services by Tsugami Japan is fair and reasonable and in the interests of our Group and our Shareholders as a whole for the following reasons: (i) Tsugami Japan possesses the expertise and advanced technology in the CNC high precision machine tool industry and developed aftersales services; (ii) currently we are still at the stage of enhancing our customisation and development capabilities and do not have full capacity to develop the Technology ourselves; (iii) when compared to similar technology for CNC high precision machine tools available from Independent Third Parties, the prices and terms offered by Tsugami Japan are fair and reasonable, and are comparable to or better than those offered by Independent Third Parties and (iv) our Group can enjoy the goodwill of the TSUGAMI brand, which has been widely recognised by manufacturers engaged in various industries.

Implications under the Listing Rules

Since one or more of the applicable percentage ratios for the transactions contemplated under the Technology Licence Agreement is more than 5.0%, the transactions contemplated under the Technology Licence Agreement are subject to the annual review, reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Sales of our CNC high precision machine tools to Tsugami Japan Group

Background

Our Company entered into the Master Sales Agreement on 4 September 2017 with Tsugami Japan, pursuant to which we agreed to sell our CNC high precision machine tools to the Tsugami Japan Group for a term commencing from the Listing Date to 31 March 2020, and the Master Sales Agreement will be automatically renewed for a successive period of three years thereafter unless terminated, among other matters, by either party with not less than 30

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business days' prior written notice, subject to compliance of the Listing Rules. We may from time to time enter into definitive sales agreements with relevant members of the Tsugami Japan Group in relation to any sales of our CNC high precision machine tools subject to the terms and conditions of the Master Sales Agreement. Pursuant to the Master Sales Agreement, there is no minimum purchase commitment imposed by us on the Tsugami Japan Group.

Historical transaction amounts

For the three years ended 31 March 2015, 2016 and 2017, our total sales of our CNC high precision machine tools to the Tsugami Japan Group amounted to approximately RMB559.2 million, RMB584.2 million and RMB548.3 million, respectively.

Annual caps and basis

Our Directors estimate that the maximum amount in respect of the transactions contemplated under the Master Sales Agreement will not exceed RMB675.0 million, RMB739.0 million and RMB809.0 million, respectively for the three years ending 31 March 2018, 2019 and 2020, respectively. In arriving at the annual caps, our Directors considered the following factors: (i) the projected growth of the global CNC high precision machine tool industry by revenue at a CAGR of approximately 5.2% from 2016 to 2021; (ii) the historical sales amounts for our CNC high precision machine tools to the Tsugami Japan Group during the Track Record Period; (iii) the expected demand for our CNC high precision machine tools from the Tsugami Japan Group taking into account the projected growth for the demand for our CNC high precision machine tools in the Other Markets and the orders and agreements on hand with reference to the production and delivery schedule up to the Latest Practicable Date; and (iv) estimated fluctuation in foreign exchange rates and market price of our CNC high precision machine tools.

Pricing guideline

The transactions contemplated under the Master Sales Agreement will be conducted in the ordinary and usual course of business of our Group and that of the Tsugami Japan Group on normal commercial terms or better and on terms which are fair and reasonable and in the interests of our Group and our Shareholders as a whole. The consideration in respect of each definitive agreement under the Master Sales Agreement will be determined in line with similar products provided to the Independent Third Parties. We will review and adjust the selling price of our CNC high precision machine tools to be sold to the Tsugami Japan Group from time to time based on their historical ordering quantities and the prevailing market conditions.

Reasons for and benefits of entering into the Master Sales Agreement

In view of our mass production capabilities at our Pinghu Production Plants, the Tsugami Japan Group procures our CNC high precision machine tools to sell to its customers based in the Other Markets, with or without further customisations. We believe the sales to the Tsugami Japan Group will provide us with stable source of income and entering into the Master Sales Agreement is in the interests of our Group and our Shareholders as a whole.

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Implications under the Listing Rules

Since one or more of the applicable percentage ratios for the transactions contemplated under the Master Sales Agreement is more than 5.0%, the transactions contemplated under the Master Sales Agreement are subject to the annual review, reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Procurement from Tsugami Japan

Background

Our Company entered into the Master Purchase Agreement on 4 September 2017 with Tsugami Japan, pursuant to which we may procure parts and components (including the relevant warranty costs in relation to the CNC system panels procured through Tsugami Japan), production machinery and equipment, and CNC high precision machine tools manufactured by the Tsugami Japan Group for a term commencing from the Listing Date to 31 March 2020, and the Master Purchase Agreement will be automatically renewed for a successive period of three years thereafter unless terminated, among other matters, by either party with not less than 30 business days' prior written notice, subject to compliance of the Listing Rules. We may from time to time enter into definitive purchase agreements with relevant members of the Tsugami Japan Group in relation to these purchases subject to the terms and conditions of the Master Purchase Agreement.

Historical transaction amounts

For the three years ended 31 March 2015, 2016 and 2017, our purchases from Tsugami Japan (including the relevant warranty costs in relation to the CNC system panels procured through Tsugami Japan) amounted to, in aggregate, approximately RMB512.0 million, RMB255.8 million and RMB334.6 million, respectively, of which (i) approximately RMB508.7 million, RMB244.1 million and RMB319.8 million were purchases of materials (i.e. the full amount of the purchases of materials from Tsugami Japan as disclosed in note 33 of the accountants' report in Appendix I to this prospectus); and (ii) approximately RMB3.3 million, RMB11.7 million and RMB14.8 million were warranty costs (i.e. the remaining part of the service fee paid to Tsugami Japan as disclosed in note 33 of the accountants' report in Appendix I to this prospectus) for the same period, respectively.

Annual caps and basis

Our Directors estimate that the maximum amount in respect of the transactions contemplated under the Master Purchase Agreement will not exceed RMB322.0 million, RMB342.0 million and RMB374.0 million, for the three years ending 31 March 2018, 2019 and 2020, respectively. The increase in the proposed annual caps for the procurement from Tsugami Japan is mainly due to the projected growth for the sales of our CNC high precision machine tools for the three years ending 31 March 2018, 2019 and 2020. In arriving at the annual caps, our Directors considered the following factors: (i) the historical purchase costs paid to Tsugami

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Japan during the Track Record Period; (ii) the projected growth for the sales of our CNC high precision machine tools for the three years ending 31 March 2018, 2019 and 2020, taking into account, in particular, the projected growth of the PRC and global CNC high precision machine tool industries by revenue at CAGR of approximately 5.7% and 5.2% from 2016 to 2021, respectively, and the orders and agreements on hand for our CNC high precision machine tools with reference to the production and delivery schedule up to the Latest Practicable Date; (iii) the expected demand for parts and components (including the relevant warranty costs in relation to the CNC system panels procured through Tsugami Japan) to cope with our projected growth for the sales of our CNC high precision machine tools; (iv) the expected demand for the CNC high precision machine tools manufactured by the Tsugami Japan Group in the PRC and Taiwan; and (v) estimated fluctuation in foreign exchange rates and increase in purchase costs of the parts and components.

Pricing guideline

The transactions contemplated under the Master Purchase Agreement will be conducted in the ordinary and usual course of business of our Group and that of the Tsugami Japan Group, on normal commercial terms or better and on terms which are fair and reasonable and in the interests of our Group and our Shareholders as a whole. In respect of the warranty costs charged by Tsugami Japan to our Group in relation to the CNC system panels procured through Tsugami Japan, our Group shall only pay Tsugami Japan an amount that is no more than that charged by the CNC System Panel Manufacturer to Tsugami Japan.

Reasons for and benefits of entering into the Master Purchase Agreement

Some of the parts and components we procure from Tsugami Japan are designed for the use of our CNC high precision machine tools. Further, pursuant to the Deed of Non-competition, Tsugami Japan has undertaken not to, and will use its best efforts to procure its close associates (other than members of our Group) not to, sell CNC high precision machine tools in the PRC, Taiwan and other markets which we may intend to develop in the future. Hence, in the event that the Tsugami Japan Group receives purchase orders for its CNC high precision machine tools in these places, we will purchase such CNC high precision machine tools from the Tsugami Japan Group to service such purchase orders.

Implications under the Listing Rules

Since one or more of the applicable percentage ratios for the transactions contemplated under the Master Purchase Agreement is more than 5.0%, the transactions contemplated under the Master Purchase Agreement are subject to the annual review, reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Application for Waivers

As the transactions contemplated under the Technology Licence Agreement, the Master Sales Agreement and the Master Purchase Agreement (collectively, “CCT Agreements”) are and will continue to be entered into in our ordinary and usual course of business on a continuing or recurring basis, our Directors are of the view that strict compliance with the announcement and independent shareholders’ approval requirements would impose additional administrative costs and would at times be impracticable.

Pursuant to Rule 14A.105, we have thus applied for, and the Stock Exchange has granted us, waivers from strict compliance with the announcement and independent shareholders’ approval requirements of the Listing Rules in respect of the continuing connected transactions as disclosed above in the paragraph headed “Non-exempt continuing connected transactions” subject to the aggregate value of each of these non-exempt continuing connected transactions for each financial year not exceeding the relevant annual caps amount set forth in this section.

We will re-comply with the announcement and independent shareholders’ approval requirements before any of the relevant annual caps is exceeded or a material change of any of the CCT Agreements is proposed.

Our Directors’ and the Sole Sponsor’s Views

Our Directors (including the independent non-executive Directors) are of the view that (i) the non-exempt continuing connected transactions contemplated under the CCT Agreements are entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better and on terms which are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (ii) the proposed annual caps in respect of the transactions contemplated under the CCT Agreements described above are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

The Sole Sponsor, after discussions with our management the proposed annual caps and reasons for entering into each of the non-exempt continuing connected transactions described above, is of the view that (i) the non-exempt continuing connected transactions contemplated under the CCT Agreements are entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better and on terms which are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (ii) the proposed annual caps in respect of the transactions contemplated under the CCT Agreements described above are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

BOARD OF DIRECTORS

Our Board currently consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions and exercising other powers, functions and duties as conferred by our Articles of Association. We have entered into a service contract with each of our executive Directors and non-executive Directors. We have also entered into a letter of appointment with each of our independent non-executive Directors.

The table below shows certain information with respect to our Directors:

<u>Name</u>	<u>Age</u>	<u>Position in our Company</u>	<u>Date of joining our Group</u>	<u>Date of appointment as Director</u>	<u>Roles/ Responsibilities</u>
Dr. Tang Donglei (唐東雷)	54	Chief executive officer and Executive Director	November 2005	13 May 2015	Responsible for overall management, strategic planning and business development
Mr. Yoshimasa Hashimoto (橋 本剛昌).	60	Executive Director	April 2015	13 May 2015	Responsible for accounting, financial management and investor relations
Mr. Tatsushi Hidano (飛田 野達史).	50	Executive Director	March 2011	13 May 2015	Responsible for development of our production technology
Mr. Takao Nishijima (西嶋尚生). . .	69	Chairman and Non-executive Director	September 2003	2 July 2013	Responsible for advising overall operation
Ms. Mami Matsushita (松 下真実).	53	Non-executive Director	January 2010	13 May 2015	Responsible for advising overseas business
Dr. Ng Lai Man Carmen (吳麗文)	52	Non-executive Director	13 May 2015	13 May 2015	Supervising and providing business advice to the Board

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position in our Company	Date of joining our Group	Date of appointment as Director	Roles/ Responsibilities
Dr. Huang Ping (黃平).	54	Independent non-executive Director	13 May 2015	13 May 2015	Supervising and providing independent judgment to the Board
Dr. Eiichi Koda (甲田英一). . .	69	Independent non-executive Director	13 May 2015	13 May 2015	Supervising and providing independent judgment to the Board
Mr. Tam Kin Bor (譚建波) .	48	Independent non-executive Director	12 December 2016	12 December 2016	Supervising and providing independent judgement to the Board

Executive Directors

Dr. Tang Donglei (唐東雷) (“Dr. Tang”), aged 54, is our chief executive officer and was appointed as our executive Director on 13 May 2015. He is primarily responsible for overall management, strategic planning and business development of our Group. Dr. Tang is a director of Tsugami HK. Dr. Tang is the vice chairman, president and a director of PTC, our operating subsidiary in the PRC, where he is primarily responsible for the strategic planning and overall operation. Dr. Tang is also the chairman and legal representative of Shinagawa Precision and Tsugami Consultants, where he is primarily responsible for the strategic planning. From July 1992 to August 2002, Dr. Tang served in Tokyo Seimitsu Co., LTD., a company listed on the Tokyo Stock Exchange (TYO: 7729) and primarily engaged in the manufacture and sales of semiconductor production equipment and measuring instruments, Tokyo Seimitsu Co., LTD. is also one of our cornerstone investors. Since June 2017, Dr. Tang has been serving as an external director of Tokyo Seimitsu Co., LTD., and he last served as the head of the China department of Tokyo Seimitsu Co., LTD. From September 2002 to October 2005, Dr. Tang served as the managing director of MJC Microelectronics Shanghai Co., Ltd (旺傑芯微電子(上海)有限公司), a company primarily engaged in the design, manufacture of probe card for semiconductor testing, test instrument and electronic special equipment and sales of products, where he was responsible for the overall operation of the company. Dr. Tang joined our Group in 2005 and was appointed as director and the president of PTC in November 2005 and November 2006, respectively, where he was responsible for the strategic planning and overall operation. From June 2010 to 13 February 2017, Dr. Tang held various positions in Tsugami Japan and last served as a director and adviser and was primarily responsible for the overall operation of the company.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Dr. Tang received his bachelor's degree in precision machinery and instruments from Harbin Institute of Technology (哈爾濱工業大學) in July 1984 and his master's degree in precision engineering from Shinshu University (信州大學) in Japan in March 1988. Dr. Tang received his doctor of engineering degree, majoring in precision machinery systems, from Tokyo Institute of Technology (東京工業大學) in January 1994.

Mr. Yoshimasa Hashimoto (橋本剛昌) (“Mr. Hashimoto”), aged 60, was appointed as our executive Director on 13 May 2015. He joined our Group in April 2015 and is primarily responsible for accounting, financial management and investor relations of our Group. Prior to joining our Group, Mr. Hashimoto held various positions in Dai-Ichi Kangyo Bank, Ltd. from April 1979 to March 2001. From April 2001 to March 2011, Mr. Hashimoto served various positions (including the head of financial services department (formerly known as treasury department)) in Nippon Boehringer Ingelheim Co., Ltd., which primarily engaged in production and sales of prescription medicine in Japan. From April 2011 to July 2014, Mr. Hashimoto served as the head of infrastructure in Boehringer Ingelheim Japan Inc.. He was primarily responsible for treasury management of Boehringer Ingelheim Japan Group Companies at financial services department and facility management in infrastructure during the tenures. From October 2014 to September 2017, Mr. Hashimoto was the advisor of Tsugami Japan and was mainly responsible for managing investor relations of Tsugami Japan and our Group, and for providing assistances in relation to the Listing.

Mr. Hashimoto received his bachelor's degree in commerce and management, major in accounting from Hitotsubashi University (一橋大學) in Japan in March 1979 and his master of business administration degree from New York University in May 1989.

Mr. Tatsushi Hidano (飛田野達史) (“Mr. Hidano”), aged 50, was appointed as our executive Director on 13 May 2015. As the general manager of the research and development centre of PTC, Mr. Hidano is primarily responsible for development of our production technology. Mr. Hidano joined Tsugami Japan in March 1991 and held various positions from senior staff to senior supervisor and senior engineer in the technology division from March 1991 to March 2011, and was primarily responsible for design of machinery tools of which he was seconded to Shimamoto Seiko from September 1991 to April 2001. Mr. Hidano served in PTC from March 2011 to August 2012 and from November 2013 onwards, primarily responsible for development and administration of technology. From August 2012 to October 2013, Mr. Hidano was a senior technical staff of the technology division I of Tsugami Japan.

Mr. Hidano completed his studies of the fourth academic year in National Institute of Technology, Nagaoka College (長岡工業高等專門學校) in Japan in March 1988, majoring in mechanical engineering. National Institute of Technology has been designed to train graduates from junior high school.

Non-executive Directors

Mr. Takao Nishijima (西嶋尚生) (“**Mr. Nishijima**”), aged, 69, is our chairman and was redesignated as our non-executive Director on 13 May 2015. Mr. Nishijima is also the chairman of the board of directors and the legal representative of PTC. Mr. Nishijima served various positions, including general manager of corporate banking division in Fuji Bank, Ltd, from May 1970 to March 1999, and was primarily responsible for credit management and general banking. He acted as the deputy general manager of the sales division of Tokyo Seimitsu Co., LTD. from April 1999 to February 2000. Mr. Nishijima was then the general manager of the sales development division of Tsugami Japan and the managing director of Tsugami Kohan Co., Ltd. from May 1999 to June 2000. He was acted as the director and general manager of the sales development division, control headquarters of Tsugami Japan from June 2000 to April 2003. Mr. Nishijima has been serving as the representative director, chairman and chief executive director of Tsugami Japan since April 2003, and is primarily responsible for advising the overall operation.

Mr. Nishijima graduated with a bachelor degree of economics from the faculty of economics of the University of Tokyo (東京大學) in April 1970.

Ms. Mami Matsushita (松下真実) (“**Ms. Matsushita**”), aged 53, was appointed as our non-executive Director on 13 May 2015. She is primarily responsible for advising the overseas business. Ms. Matsushita joined our Group as a supervisor in January 2010 and was appointed as the director of PTC in October 2010, where she was primarily responsible for advising the overall management relating to export or import matters. Ms. Matsushita is also a supervisor of Shinagawa Precision and a director of Tsugami Consultants. Ms. Matsushita is a senior executive officer and general manager of overseas division of Tsugami Japan. From April 2010, she served as the president of Tsugami Europe GmbH and a director of Tsugami Korea Co., Ltd., respectively, both of which are subsidiaries of Tsugami Japan. From June 2013, Ms. Matsushita served as a director of Tsugami Universal Pte. Ltd. and Tsugami Precision Engineering India Private Limited, respectively, both of which are subsidiaries of Tsugami Japan. From June 2002 to March 2010, Ms. Matsushita was employed by Tokyo Seimitsu Co., LTD. (株式会社東京精密).

Ms. Matsushita obtained her bachelor’s degree in arts and master’s degree in arts from Meiji University (明治大學) in Japan in March 1988 and March 1990, respectively.

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Dr. Ng Lai Man Carmen (吳麗文) (“**Dr. Ng**”), aged 52, was appointed as our independent non-executive Director on 13 May 2015, and was redesignated as our non-executive Director on 12 December 2016. She is primarily responsible for supervising the business and providing business advice to the Board. Dr. Ng acted/is acting as an independent non-executive director of the following companies listed/delisted on the Stock Exchange:

Date	Name of listed/delisted company	Stock code	Present principal business activities	Present responsibilities
September 2004 to July 2014 . . .	Realord Group Holdings Limited (previously known as Cheong Ming Investments Limited)	1196	Commercial printing, manufacture and sale of hangtags, labels, shirt paper boards and plastic bags, sales and distribution of motor vehicle parts (in 2014)	Chairman of audit committee and member of remuneration committee (immediately before resignation in July 2014)
March 2009 to present	eSun Holdings Limited	571	Development, operation of and investment in media and entertainment, music and television programmes and films production and distribution, property development and investment	Chairman of audit committee and member of remuneration committee
June 2011 to present	Lion Rock Group Limited (previously known as 1010 Printing Group Limited)	1127	Provision of printing services	Chairman of audit committee, and member of remuneration committee and nomination committee
November 2014 to present	Global International Credit Group Limited	1669	Money lending business of providing property mortgage loans and personal loans in Hong Kong	Chairman of audit committee, and member of remuneration committee and nomination committee
February 2004 to 25 August 2017	Goldin Properties Holdings Limited (previously known as Matsunichi Communication Holdings Limited)	283 (delisted on the Stock Exchange on 18 August 2017)	Development and investment of property, hotel and polo club operation (prior to delisting)	Chairman of remuneration committee and member of audit committee and nomination committee (prior to delisting)

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Dr. Ng has more than 28 years of experience in professional accounting and corporate finance. Dr. Ng is a practicing certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants in the United Kingdom, and an associate member of The Institute of Chartered Accountants in England and Wales. Dr. Ng is a representative of Hong Kong Asset Management Limited, a Joint Bookrunner, a Joint Lead Manager and an Underwriter. As at the Latest Practicable Date, Dr. Ng and her associates were interested in less than 10.0% of the share capital of Hong Kong Asset Management Limited, and hence, Hong Kong Asset Management Limited is not a connected person of our Company under the Listing Rules. Dr. Ng received her Doctor of Business Administration Degree from The Hong Kong Polytechnic University in November 2003, Juris Doctor Degree from The Chinese University of Hong Kong in December 2010, Master of Laws Degree in Corporate and Financial Laws from The University of Hong Kong in November 2007, Master of Business Administration Degree from The Chinese University of Hong Kong in December 2005, Master of Professional Accounting Degree from The Hong Kong Polytechnic University in November 2000 and Master of Science in Global Finance from The Hong Kong University of Science and Technology and Leonard N. Stern School of Business of New York University in May 2013.

Independent non-executive Directors

Dr. Huang Ping (黃平) (“Dr. Huang”), aged 54, was appointed as our independent non-executive Director on 13 May 2015. From April 1991 to May 1999, Dr. Huang served as manager of software engineering in Uniden Corporation (now Uniden Holdings Corporation), a company listed on the Tokyo Stock Exchange (TYO: 6815) and primarily engaged in the manufacture and sales of wireless communications equipment, where he was a software group leader responsible for development of various kinds of wireless communication products. From May 1999 to November 2001, Dr. Huang served in Mitsubishi Wireless Communications, Inc., a company engages in the manufacture and sales of wireless communications equipment, where he was responsible for design and implementation of TDMA/AMPS dual mode cellular phone. Dr. Huang had afterwards served various positions in CalAmp Corp., a company whose shares are listed on NASDAQ stock market (NASDAQ: CAMP) and is a wireless communication solutions provider. Since July 2009, Dr. Huang has been serving as the general manager of eSky Wireless Inc., (蘇州翼凱通信科技有限公司), a company engaged in the development and sales of GSM and W-CDMA wireless communications modules, where he was responsible for research and development of modules and products of GSM/GPRS for sales in North America, Japan and PRC, etc.

Dr. Huang received his bachelor’s degree in wireless communication from Tsinghua University (清華大學) in July 1984. Dr. Huang obtained his master’s degree and doctor’s degree, majoring in electrical and electronic engineering, from Tokyo Institute of Technology (東京工業大學) in March 1988 and March 1991, respectively.

Dr. Eiichi Koda (甲田英一) (“Dr. Koda”), aged 69, was appointed as our independent non-executive Director on 13 May 2015. Dr. Koda has been serving as a specially appointed professor from April 2013 to March 2015 and subsequently a guest professor, since April 2015, of the School of Medicine of Toho University (東邦大學) in Japan. From May 2003 to March 2013, Dr. Koda served as a professor of course of radiology of Ohashi Medical Center of the School of Medicine of Toho University (東邦大學醫學部大橋病院).

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Dr. Koda received his bachelor's degree and his doctor's degree in medicine from Keio University (慶應義塾大學) in Japan in March 1972 and in September 1994, respectively. He qualified as a medical doctor after passing the National Medical Practitioner Examination in Japan in June 1972.

Mr. Tam Kin Bor (譚建波) (“Mr. Tam”), aged 48, was appointed as our independent non-executive Director on 12 December 2016. From September 1997 to March 2007, Mr. Tam worked in Ernst and Young Hong Kong and Beijing offices, and last served as a senior manager. From March 2007 to June 2010, Mr. Tam served as vice president for Deutsche Bank's wholly-owned subsidiary, Cathay Advisory (Beijing) Co. Ltd.. Mr. Tam subsequently served as chief financial officer at Debao Property Development Ltd., (德寶房地產開發有限公司), a company listed on the Singapore Stock Exchange (stock code: BTF) and primarily engaged in property development, construction contractor and property. Mr. Tam also served as chief financial officer at Tianfang Hospitality Management Pte. Ltd., (天房酒店基金管理有限公司), where he was responsible for the overall finance and monitoring the financial performance of a real estate investment trust of company and preparation of accounts.

Mr. Tam received his bachelor's degree in accounting from Monash University in Australia in August 1997. He is a fellow member of the Association of Certified Public Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He passed the test relating to capital markets and financial advisory services organised by the Institute of Banking & Finance Singapore in August 2015.

Save as disclosed above, our Directors have not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Dr. Tang was the legal representative of the Shanghai branch and the Dongguan branch of PTC (both of which were established in the PRC and engaged in market research, and were respectively dissolved by voluntary winding-up on 6 August 2012 and 3 August 2012), and Dr. Ng was a director of Dragon Man Limited, Tiffany Limited and DGC HK CPA Limited (all of which were incorporated in Hong Kong and were either an investment holding company or ceased the business at the relevant time, and were respectively dissolved by deregistration on 14 September 2007, 7 September 2012 and 25 November 2016). They have respectively confirmed that the above disclosed branches/companies were solvent at the relevant time, and their dissolution has not resulted in any claim or liability against them. Save as disclosed above, there is no other information in respect of our Directors that is discloseable pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention of our Shareholders.

Please see the section headed “Statutory and General Information – 6. Disclosure of Interest – A. Disclosure of interests” and “– 7. Further information about our Directors – A. Directors' service contracts” in Appendix V to this prospectus for information regarding our Directors' respective interest in the Shares within the meaning of Part XV of the SFO and the particulars of the Directors' service contracts and information.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

As of the Latest Practicable Date, save for the interests of Dr. Tang Donglei, Mr. Yoshimasa Hashimoto, Mr. Takao Nishijima and Ms. Mami Matsushita in the Shares by virtue of the Pre-IPO Share Options which are disclosed in Appendix V to this prospectus, none of the Directors has any interest in the Shares within the meaning of Part XV of the SFO.

SENIOR MANAGEMENT

The following table sets forth certain information in respect of our senior management:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining our Group</u>	<u>Roles/ Responsibilities</u>
Dr. Li Zequn (李澤群) . . .	56	Vice president	April 2013	Responsible for quality control and overseeing the sourcing and purchases of raw materials and components
Mr. Jiang Ping (蔣平)	54	Vice president	March 2006	Responsible for business and operation
Mr. Lin Hsin-Tze (林新澤) . . .	47	Vice president	January 2009	Responsible for production management
Mr. Li Junying (李軍營) . . .	43	Assistant to president and financial manager	November 2012	Responsible for financial administration

Dr. Li Zequn (李澤群) (“Dr. Li”), aged 56, is the vice president of our Group and a director of PTC. He is also the manager of inspection department and the responsible person of technical department. Dr. Li is responsible for quality control and overseeing the sourcing and purchases of raw materials and components. Prior to joining our Group, from October 1991 to August 2003, Dr. Li served in Seiko Instruments Inc., (セイコーインスツル株式会社), a company primarily engaged in the manufacture of products and systems for the electronic product components and machine tools. He was an assistant manager from April 1998 to August 2003, and was primarily responsible for the development of electronics and machinery components. From September 2003 to March 2013, Dr. Li served in Calsonic Kansei Corporation (カルソニックカンセイ株式会社) and its group company. He was primarily responsible for formulating business strategy and carrying out feasibility study in the PRC and served as a manager in Calsonic Kansei Corporation (カルソニックカンセイ株式会社) and the general manager of a PRC group company of Calsonic Kansei Corporation (カルソニックカンセイ株式会社). Dr. Li was also responsible for the development of production technology, product integration, quality assurance and the provision of technical support.

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Dr. Li obtained his bachelor degree in engineering from North University of China (中北大學) (then known as Taiyuan Institute of Machinery (太原機械學院)) in July 1982. Dr. Li received his master's degree and doctor's degree in engineering, from Kanazawa University (國立金澤大學) in Japan in March 1988 and September 1991, respectively.

Mr. Jiang Ping (蔣平) ("Mr. Jiang"), aged 54, is the vice president of our Group and is a director of PTC and the president and a director of Tsugami Consultants. He is primarily responsible for business and operation of the Group. From August 1983 to October 1997, Mr Jiang served as mechanic equipment engineer in China Huajing Electronics Group Company (中國華晶電子集團公司), a company which is engaged in manufacture and sale of semiconductor components. From November 1997 to February 2006, Mr. Jiang served as sales director in Accretech (China) Co. Ltd. (東精精密設備(上海)有限公司), a company primarily engaged in assembling, processing and sales of precision measuring instrument and semiconductor manufacturing equipment.

Mr. Jiang obtained his bachelor degree in radio engineering from Huazhong Engineering College (華中工學院) in the PRC in July 1983.

Mr. Lin Hsin-Tze (林新澤) ("Mr. Lin"), aged 47, is the vice president of our Group and a director of PTC and Shinagawa Precision. He is primarily responsible for production management of the Group. From March 1994 to November 2003, Mr. Lin served as deputy manager of the customer services team of Great Tung Ching Trading Co., Ltd (同清貿易股份有限公司), which primarily engages in distribution of high precision machine tools. From December 2003 to December 2008, Mr. Lin served as a manager in the production team of Tsugami Japan and was seconded to PTC as vice president from October 2004. Mr. Lin left Tsugami Japan in December 2008.

Mr. Lin completed his education in vehicle repair from The Affiliated Senior Industrial Vocational Continuing Education School Taoyuan Senior Agricultural Vocational School of Taiwan (台灣省立桃園高級農工職業學校附設高級工業職業進修補習學校) in Taiwan in June 1988.

Mr. Li Junying (李軍營) ("Mr. Li"), aged 43, is the assistant to president and financial manager of our Group. He is primarily responsible for financial administration of our Group. Mr. Li served in Matsui Mfg. Co., Ltd., (株式会社松井製作所), a company primarily engaged in manufacturing and sales of plastics processing equipment and systems from April 2007 to June 2012. From July 2012 to November 2012, Mr. Li served as the head of accounting department in Tsugami Japan where he was primarily responsible for the accounting matters.

Mr. Li obtained his bachelor degree in accounting from Huazhong University of Science and Technology (華中科技大學) in the PRC in October 2002. Mr. Li received degree of master of in technology management from Yokohama National University (橫濱国立大学) in Japan in September 2006.

Save as disclosed above, none of our senior management members has been a director of any public company, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

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COMPANY SECRETARY

Ms. Wong Wai Yee Ella (黃慧兒) (“Ms. Wong”), aged 42, was appointed as our company secretary in June 2015. Ms. Wong is the senior manager of corporate services of Tricor Services Limited, which is an operating company of Tricor Group, a global professional services provider specialised in integrated business, corporate and investor services. Ms. Wong is also the company secretary of Vedan International (Holdings) Limited (味丹國際(控股)有限公司) (stock code: 2317) and a joint company secretary of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司) (stock code:1988). Ms. Wong has over 15 years of experience in corporate services area. She served in the company secretarial department of Tengis Limited in Hong Kong from March 2001 to December 2003, where she was primarily responsible for providing outsourced company secretarial services to private companies.

Ms. Wong was admitted as an associate of both the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries (former known as The Hong Kong Institute of Company Secretaries) in November 2000. Ms. Wong received her bachelor’s degree of Economics from the University of Hong Kong in December 1997 and her postgraduate diploma in corporate administration from the City University of Hong Kong in November 2000.

BOARD COMMITTEES

Audit Committee

We have established an audit committee on 4 September 2017 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee consists of three members, one of whom is non-executive Director, being Ms. Mami Matsushita, and two of whom are independent non-executive Directors, being Mr. Tam Kin Bor (being the chairman of the audit committee who has a professional qualification in accountancy) and Dr. Huang Ping. The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting system, risk management and internal control systems, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee on 4 September 2017 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The remuneration committee consists of three members, one of whom is executive Director, being Mr. Yoshimasa Hashimoto, and two of whom are independent non-executive Directors, being Mr. Tam Kin Bor and Dr. Huang Ping. The remuneration committee is chaired by Mr. Tam Kin Bor. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Directors regarding our policy and structure for the

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remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of our Directors and senior management; and (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives.

During the Track Record Period, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of our Group and the individual performance of our Directors and senior management members. We intend to adopt the same remuneration policy after the Listing, subject to review by and the recommendations of our remuneration committee.

Nomination Committee

We have established a nomination committee on 4 September 2017 with written terms of reference in compliance with paragraph A5 of the Code on Corporate Governance Practices and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. The nomination committee consists of three members, namely Mr. Takao Nishijima, Mr. Tam Kin Bor and Dr. Eiichi Koda. Two of the members are our independent non-executive Directors. The chairman of the nomination committee is Mr. Tam Kin Bor. The primary function of the nomination committee is to make recommendations to our Board on the appointment or re-appointment Directors and succession planning for Directors, in particular the chairman and the chief executive.

TRANSFERRED EMPLOYEES

Our Group employed certain individuals (the “**Transferred Employees**”) who were transferred from the Tsugami Japan Group (the “**Transfer Arrangement**”). The Transferred Employees should be distinguished from the personnel sent from Tsugami Japan pursuant to the Technology Licence Agreement, who provide various onsite technical support and training at our Pinghu Production Plants. As of 31 March 2017, we engaged 32 Transferred Employees. Dr. Tang Donglei, our executive Director, has terminated his employment relationship with Tsugami Japan (thereby ceasing to be a Transferred Employee) prior to the Listing. As such, save for an executive Director (namely, Mr. Tatsusi Hidano) and two members of our senior management (namely, Dr. Li Zequn and Mr. Li Junying), none of our Directors and senior management members is a Transferred Employee as at the Latest Practicable Date. The other Transferred Employees comprise personnel from various positions including general manager, engineer, consultant and technician.

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The Transfer Arrangement allows us to obtain from Tsugami Japan personnel with experience and expertise in CNC high precision machine tool to support the operation and development of our Group in the PRC. The Transferred Employees also provide training to our local employees to acquire knowledge and skills in relation to the manufacture of the CNC high precision machine tool.

The principal terms of the Transfer Arrangement can be summarised as follows: (i) the Transferred Employees are under our management and instruction to work full time for our Group during their term of employment; (ii) they shall not hold any positions nor be involved in any operation in the Tsugami Japan Group; and (iii) their salary (the “**Transferred Employee Salary**”) is determined by our Group, with reference to their respective historical salary in the Tsugami Japan Group. Subject to the business needs of our Group, we will decide whether to renew the employment contract with the Transferred Employees upon such expiration. There is no restriction in employment contracts of the Transferred Employees to return to work with Tsugami Japan upon the expiration of such employment contracts. Our Group has borne the Transferred Employee Salary in full since July 2013, while the Tsugami Japan Group pays part of the Transferred Employee Salary and certain social insurance benefits (the “**Japan Benefits**”) for these Transferred Employees in Japan on our behalf (which are reimbursed by us in full). For the three years ended 31 March 2015, 2016 and 2017, the total Transferred Employee Salary borne by us amounted to approximately RMB16.4 million, RMB14.7 million and RMB15.0 million, respectively, and the total Japan Benefits borne by us amounted to approximately RMB0.9 million, RMB0.6 million and RMB0.7 million, respectively. These Transferred Employees typically enter into employment contract with our Group for a term of three years and establish a direct employment relationship with our Group, and we are entitled to terminate the employment relationship in accordance with the employment contract and in line with our Group’s internal policies. Upon expiration of the original employment contract with the Transferred Employee, a new employment contract may be entered into with such employee, subject to our discretion. Although the Transferred Employees maintain an employment relationship with Tsugami Japan, there is no written employment contract entered into with Tsugami Japan while they are under the Transfer Arrangement. These Transferred Employees are treated as employees by Tsugami Japan principally for maintaining the Japan Benefits. In the event that any Transferred Employee leaves our Group for whatever reasons, we believe our Group can find suitable replacements for the leaving Transferred Employees from our local employees who received training and acquired knowledge and skills from the Transferred Employees without causing material interruption to the business operation of our Group. Save and except that an executive Director (namely, Mr. Tatsusi Hidano) is a Transferred Employee and hence, conflict of interest may arise in certain circumstances, such as when considering resolution(s) relating to the Transfer Arrangement or transactions with the Tsugami Japan Group, our Directors do not consider there will be other conflict of interest issues arising from the Transfer Arrangement. To address the aforementioned possible conflict of interest, we will adopt the following corporate governance measures and policies, i.e. Mr. Tatsusi Hidano or any other Transferred Employee must not vote on any resolution relating to the Transfer Arrangement or other transactions with the Tsugami Japan Group nor shall he (or she) be counted in the quorum present at the Board meeting when considering such resolutions.

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CORPORATE GOVERNANCE

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

Our Company has adopted the code provisions stated in the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. Our Company is committed to the view that the Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary, benefits in kind and discretionary bonuses related to the performance of our Company.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the three years ended 31 March 2015, 2016 and 2017 was approximately RMB5.9 million, RMB3.6 million and RMB4.7 million, respectively.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid by our Group to the five highest paid individuals for the three years ended 31 March 2015, 2016 and 2017, was approximately RMB4.1 million, RMB3.8 million and RMB4.2 million, respectively.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the three years ended 31 March 2015, 2016 and 2017. Further, none of our Directors waived any remuneration during the same periods.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors for the year ending 31 March 2018 is estimated to be no more than RMB5.4 million.

PRE-IPO SHARE OPTION SCHEME

We have adopted the Pre-IPO Share Option Scheme on 14 March 2014. For details of our Pre-IPO Share Option Scheme, please refer to the section headed “Statutory and General Information – 8. Pre-IPO Share Option Scheme” in Appendix V to this prospectus.

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COMPLIANCE ADVISER

We have appointed Halcyon Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares, the possible development of a false market in our Shares, or any other matters.

The term of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

OVERVIEW

Immediately upon completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised), our Company will be owned as to 75.0% by Tsugami Japan, and hence, Tsugami Japan is our Controlling Shareholder within the meaning of the Listing Rules.

Tsugami Japan is a long-established Japanese manufacturer of machine tools established in March 1937 and has been listed on the Tokyo Stock Exchange for over 50 years. Tsugami Japan primarily engages in the design, research, development, manufacture and sales of machine tools. Tsugami Japan divides its manufacturing and sales organisations geographically and we are the only subsidiaries established in the PRC by Tsugami Japan. The end customers of the Tsugami Japan Group (other than us) primarily include manufacturers engaged in IT related product parts, automobile parts, medical equipment and clock and watch manufacturing in the Other Markets.

Based on the average closing stock price of JPY886.8 for the five trading days immediately preceding the Latest Practicable Date and the number of outstanding shares of 64,919,379 shares, the market capitalisation of Tsugami Japan is approximately JPY57,571 million as at the Latest Practicable Date. According to the published business reports of Tsugami Japan, for the three years ended 31 March 2015, 2016 and 2017, (i) consolidated net sales of Tsugami Japan amounted to approximately JPY54,132 million (equivalent to approximately RMB3,313 million), JPY40,132 million (equivalent to approximately RMB2,456 million) and JPY41,050 million (equivalent to approximately RMB2,513 million), respectively; and (ii) net income attributable to equity holders amounted to approximately JPY5,297 million (equivalent to approximately RMB324 million), JPY877 million (equivalent to approximately RMB54 million) and JPY2,630 million (equivalent to approximately RMB161 million), respectively.

BUSINESS DELINEATION

Our Directors are of the view that there is a clear delineation between the business of our Group and that of the Tsugami Japan Group (other than us), taking into account the geographical location of sales and distribution, the business focus, the nature of the machine tools manufactured and the nature of production.

(a) Different geographical location of sales and distribution

Our Group primarily sells CNC high precision machine tools in the PRC via our distributors, markets our products in the PRC market and currently has no representative office in the Other Markets. On the other hand, the Tsugami Japan Group sells products in the Other Markets and conducts its promotions in the Other Markets. Further, since June 2016, our Group started to sell CNC high precision machine tools to Taiwan through our Taiwanese distributor, while the Tsugami Japan Group ceased to sell any of its machine tools in Taiwan. To ensure the geographical delineation of sales markets of our Group and the Tsugami Japan Group is properly maintained, we have entered the Deed of Non-competition with Tsugami Japan. By

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virtue of the undertakings set out in the Deed of Non-competition, our Controlling Shareholder will not and will use its best efforts to procure its close associates (other than members of our Group) not to, among others, engage in any competing business with our Group, which includes not to sell any of its machine tools in the PRC and Taiwan directly or through its sales network. Any customers from the PRC or Taiwan will be serviced by us by selling our CNC high precision machine tools or procured by us from the Tsugami Japan Group.

For further details of the Deed of Non-competition, please refer to the paragraph headed “Non-Competition Undertakings” in this section.

(b) Different business focus and nature of machine tools manufactured by our Group and Tsugami Japan

Our Group generally focuses on the manufacture of CNC high precision machine tools with relatively more standardised design and features. For further details, please refer to the section headed “Business” in this prospectus. Tsugami Japan generally focuses on the design and development of advanced technology used for manufacturing CNC high precision machine tools and the CNC high precision machine tools manufactured by Tsugami Japan are with relatively higher precision and with features designed for customised products to suit the needs of specific industry segments. As such, to the best knowledge of our Directors, the CNC high precision machine tools manufactured by us and those manufactured by Tsugami Japan are generally used for different manufacturing process of the target customers and we do not compete with each other for the same target customers. As far as our Directors are aware, there is no overlap in models of our CNC high precision machine tools manufactured in the PRC (sold in the PRC and Taiwan or sold by Tsugami Japan in the Other Markets without customisations) and those manufactured or customised and sold by Tsugami Japan in the Other Markets. In addition, according to our Japanese Legal Advisers, under the Export Control Order of the Foreign Exchange and Foreign Trade Act of Japan (the “**Export Control Order**”), CNC high precision machine tools with precision level assessed above a prescribed threshold may be regarded as restricted technology in Japan and may be subject to the Export Control Order. Accordingly, export of certain specific types of precision machine tools manufactured and/or transfer of the technology developed by Tsugami Japan may be restricted under Export Control Order.

(c) Different nature of production

Our Group focuses on mass production of CNC high precision machine tools that are of standardised design and specifications, whereas Tsugami Japan focuses on production of a smaller volume of CNC high precision machine tools with more advanced technology and complicated production process and specifications and/or customisations. As far as we are aware, all the CNC high precision machine tools under the TSUGAMI brand that are of relatively standardised nature which have to be mass produced are currently manufactured by our Group.

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To the best knowledge of our Directors, our Group and the Tsugami Japan Group have one common customer, Customer D, details of which are set out in the section headed “Business – Sales – Our customers” in this prospectus, which engages in distribution of high precision machine tools in the PRC. Customer D was one of our top five customers during the Track Record Period. In respect of the transactions between the Tsugami Japan Group and Customer D during the Track Record Period, as far as our Directors are aware, we did not sell CNC high precision machine tools sold by the Tsugami Japan Group to Customer D, and we consider that the Tsugami Japan’s sales amount and percentage of sales to Customer D was not material. By virtue of the undertakings set out in the Deed of Non-competition, our Controlling Shareholder will and will use its best efforts to procure its close associates (other than members of our Group) to cease to sell any of its products to Customer D and any other customers in the PRC and Taiwan from the Listing Date. Any orders from customers in the PRC and Taiwan will be serviced by our Group directly or through our sales network via our distributors.

Save as disclosed above, to the best knowledge of our Directors after making reasonable enquiries, our Group and the Tsugami Japan Group did not have any common customers during the Track Record Period and as such, we believe our Group and the Tsugami Japan Group do not compete for the same end customers.

Based on the above, our Directors do not expect any overlap or competition between the businesses of our Group and the Tsugami Japan Group in any material respect after Listing. Further, none of our Directors or any of their close associates have an interest in any business which competes or is likely to compete, directly or indirectly, with the business of our Group.

Notwithstanding the clear delineation of business between our Group and the Tsugami Japan Group, our Controlling Shareholder has entered into the Deed of Non-competition in favour of our Company to the effect that it will not, and will use its best efforts to procure its close associates (other than members of our Group) not to, participate in, or engage in or develop any business which is in competition with our business to ensure that competition will not exist in the future.

NON-COMPETITION UNDERTAKINGS

Our Controlling Shareholder has undertaken to us in the Deed of Non-competition that it will not, and will use its best efforts to procure its close associates (for the purpose of this sub-section, other than members of our Group) not to participate in, or engage in or develop any business which is in competition with our business (the “**Restricted Business**”).

In addition, in order to further ensure that there is a clear business delineation and no direct competition between the business of our Group and that of our Controlling Shareholder and its close associates, and to ensure we have full autonomy on our business operations, our Controlling Shareholder has also granted and will use its best efforts to procure its close associates to grant us a first right (the “**First Right**”) to manufacture and sell certain models of CNC high precision machine tools manufactured and/or sold by our Controlling Shareholder and/or its close associates, subject to the applicable laws and regulations. Pursuant to the Deed

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of Non-competition, our Controlling Shareholder has undertaken that we are entitled to exercise the First Right by serving a notice to Tsugami Japan that sets out the details of the CNC high precision machine tools that we intend to manufacture and the target market(s) we intend to sell. If our Controlling Shareholder and/or its close associates has been selling such CNC high precision machine tools in these target market(s), our Controlling Shareholder shall and shall use its best efforts to procure its close associates to cease its sales of such CNC high precision machine tools in such market(s) as soon as commercially reasonably practicable, and in any event, no later than 180 days from the date of receiving the notice. The terms and conditions of exercising such First Right will be determined after arm's length negotiation between our Controlling Shareholder or its close associates and us.

Further, under the Deed of Non-competition, our Controlling Shareholder has also undertaken that to the extent permissible by applicable laws and regulations, if any business investment or any business opportunities relating to, engaging in or owning the Restricted Business (the "**Competing Business Opportunity**") is identified by or made available to it or any of its close associates, it shall, and shall use its best efforts to procure that its close associates to, refer such Competing Business Opportunity to us on a timely basis and in the following manner:

- (i) our Controlling Shareholder shall, and shall use its best efforts to procure its close associates to, refer the Competing Business Opportunity to us by giving written notice ("**Offer Notice**") to us of such Competing Business Opportunity, the nature of the Competing Business Opportunity, the investment costs and all other details reasonably necessary for us to consider whether to pursue such Competing Business Opportunity;
- (ii) our Controlling Shareholder shall, and shall use its best efforts to procure its close associates to ensure that such Competing Business Opportunity is first offered to us on terms that are fair and reasonable and no less favourable than those terms first offered to Tsugami Japan and/or its close associates;
- (iii) upon receiving the Offer Notice, our Company shall seek approval from our Board or a board committee (in each case comprising only independent non-executive Directors) which has no interest in the Competing Business Opportunity (the "**Independent Board**") as to whether to pursue or decline the Competing Business Opportunity (any Director who has actual or potential interest in the Competing Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not be counted in the quorum for, any meeting convened to consider such Competing Business Opportunity);
- (iv) the Independent Board shall consider the financial impact of pursuing the Competing Business Opportunity offered, whether the nature of the Competing Business Opportunity is consistent with our Group's strategies and development plans and the general market conditions of our business. If appropriate, the Independent Board may appoint independent financial advisers and legal advisers to assist in the decision-making process in relation to such Competing Business Opportunity;

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- (v) the Independent Board shall, within 30 business days of receipt of the Offer Notice which may be extended by an additional 30 business days, inform our Controlling Shareholder or its close associates (as the case may be) in writing on behalf of us its decision whether to pursue or decline the Competing Business Opportunity and unless and until the Independent Board has informed our Controlling Shareholder or its close associates (as the case may be) that we shall decline the offered Competing Business Opportunity or we fail to respond within 30 business days or such extension period mentioned above, our Controlling Shareholder shall not, and shall use its best efforts to, procure its close associates not to engage, participate or hold any right or interest in any Competing Business Opportunity;
- (vi) our Controlling Shareholder or its close associates (as the case may be) shall be entitled but not obliged to pursue such Competing Business Opportunity if it has received a notice from the Independent Board declining such Competing Business Opportunity or if the Independent Board fails to respond within such 30 business days' period or such extension period mentioned above; and
- (vii) if there is any material change in the nature, terms or conditions of such Competing Business Opportunity pursued by our Controlling Shareholder or its close associates, our Controlling Shareholder shall, and shall use its best efforts to procure its close associates to, refer such revised Competing Business Opportunity to us as if it is a new Competing Business Opportunity.

Pursuant to the Deed of Non-competition, our Controlling Shareholder shall, and shall use its best efforts to procure its close associates to, grant us an option to purchase any equity interest, assets or other interests which form part of any Competing Business Opportunity not taken up by us but has been retained by our Controlling Shareholder or its close associates.

Further, our Controlling Shareholder shall, and shall use its best efforts to, procure its close associates, to let us have the pre-emptive right for any transfer, sale, lease, licence, grant of right to any Competing Business not taken up by us but has been retained by our Controlling Shareholder or its close associates, on the same terms as and before the offer of such transfer, sale, lease, licence or grant to any third party.

Further, our Controlling Shareholder has undertaken to provide and will use its best efforts to procure its close associates to provide us (including our independent non-executive Directors) with all information necessary for our annual review and the enforcement of all undertakings, representations and warranties contained in the Deed of Non-competition and for us to consider whether to exercise our right in respect of the Competing Business Opportunity.

The Act on Prohibition of Private Monopolisation and Maintenance of Fair Trade (Act No. 54 of 1947) (the “**Japanese Antimonopoly Act**”) prohibits unreasonable restraint of trade. According to our Japanese Legal Advisers, there is a possibility that certain non-competition undertakings given by our Controlling Shareholder pursuant to the Deed of Non-Competition may be interpreted and considered as a violation of the Japanese Antimonopoly Act. However,

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as advised by our Japanese Legal Advisers, such possibility or risk is generally low so long as our Controlling Shareholder remains as our parent company (holding a majority of voting rights) and the transactions among us and our Controlling Shareholder can thus be considered as intra-company transactions. In this connection, Tsugami Japan irrevocably undertakes to our Company that in the event that Tsugami Japan no longer holds a majority of voting rights of our Company but remains as the Controlling Shareholder, the Deed of Non-competition will be amended to the extent necessary to avoid a breach of all laws and regulations applicable to Tsugami Japan and/or our Company (including the Japanese Antimonopoly Act). In such event, we will make appropriate announcement as and when necessary in compliance with the Listing Rules.

The Deed of Non-competition will lapse automatically if our Controlling Shareholder ceases to hold, whether directly or indirectly, at least 30.0% (or such higher percentage as constituting a controlling shareholder under the Listing Rules and applicable requirements from time to time) of our Shares or if our Shares cease to be listed on the Stock Exchange.

In order to promote good corporate governance practices and to improve transparency, we intend to adopt the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholder;
- (ii) we will disclose, to the extent permissible by applicable laws and regulations, the review by our independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules;
- (iii) we will disclose the decisions on matters reviewed by the independent non-executive Directors and the Independent Board (including the reasons for not taking up the Competing Business Opportunity referred to us) either through our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules;
- (iv) our Controlling Shareholder will make an annual declaration in our annual report on the compliance with the Deed of Non-competition in accordance with the principle of voluntary disclosure in the corporate governance report;
- (v) in the event that any of our Directors and/or their respective close associates has material interests in any matter to be deliberated by our Board in relation to the compliance and enforcement of Deed of Non-competition, he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association; and

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- (vi) we are committed that our Board shall include a balanced composition of executive and non-executive Directors (including the independent non-executive Directors). Given that the independent non-executive Directors represent not less than one third of our Board, we believe there is strong independent element on our Board, which allow them to exercise independent judgment and to protect the interests of our public Shareholders. For further details of our independent non-executive Directors, please refer to the section headed “Directors, Senior Management and Employees – Board of Directors – Independent non-executive Directors” in this prospectus.

Further, in monitoring the business of our Controlling Shareholder and its close associates, an executive committee (the “**Competition Executive Committee**”) comprising two disinterested Directors, namely Dr. Tang Donglei and Dr. Ng Lai Man Carmen, will be established with the following major responsibilities:

- (i) conduct quarterly inspection on the sales network of our Controlling Shareholder and its close associates, including their end customers, to check whether any products of our Group is sold by our Controlling Shareholder and/or its close associates in the PRC or Taiwan or any other markets in which our Group is selling our CNC high precision machine tools; and
- (ii) conduct quarterly communications with representatives of our Controlling Shareholder and its close associates to understand (a) the product difference between our Group and our Controlling Shareholder and its close associates that are currently sold in the market, (b) the advanced customisations made by our Controlling Shareholder and its close associates on its products and on top of our CNC high precision machine tools, and (c) the latest strategies and market plan of our Controlling Shareholder and its close associates.

A supervisory committee (the “**Competition Supervisory Committee**”), comprising three independent non-executive Directors, namely, Dr. Huang Ping, Mr. Tam Kin Bor and Dr. Eiichi Koda, will also be established with the following major responsibilities:

- (i) meet quarterly and review the quarterly inspection record and any communication records by the Competition Executive Committee; and
- (ii) report findings during its review of the records provided by the Competition Executive Committee to the Board which will be published in the Company’s annual reports.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from our Controlling Shareholder and its respective close associates after Listing.

Operational Independence

We manage all the production and operating facilities relating to our business, in particular, our Pinghu Production Plants at which our production is located, are properties owned by us. We have sufficient operational capacity in terms of capital, plants and production

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machinery and equipment, facilities, premises and employees to operate our business independently, with the independent right to make operational decisions and implement such decisions. Other than the transactions set forth in the section headed “Connected Transactions” in this prospectus, we have independent access to customers and suppliers and an independent management team to handle our day-to-day operation. Our organisational structure also consists of separate departments with specific area of responsibilities. On the basis of the above, our Directors consider that our Company will continue to be operationally independent from our Controlling Shareholder after Listing.

During the Track Record Period, our Controlling Shareholder and certain entities controlled by our Controlling Shareholder entered into related party transactions with our Group. Such related party transactions are disclosed in Note 33 to the Accountants’ Report set out in Appendix I to this prospectus. Such transactions, if continued upon Listing, will constitute continuing connected transactions of our Company under the Listing Rules. Our Directors (including our independent non-executive Directors) consider that such continuing connected transactions have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better to the Company and are fair and reasonable and in the interests of our Group and our Shareholders as a whole. For further details of the continuing connected transactions, please refer to the section headed “Connected Transactions – Continuing connected transactions” in this prospectus.

Management Independence

Upon Listing, our Board will consist of three executive Directors, namely Dr. Tang Donglei, Mr. Tatsushi Hidano and Mr. Yoshimasa Hashimoto, three non-executive Directors, namely Mr. Takao Nishijima, Ms. Mami Matsushita, and Dr. Ng Lai Man Carmen and three independent non-executive Directors, namely Dr. Huang Ping, Dr. Eiichi Koda and Mr. Tam Kin Bor. Our Group’s senior management team, which is led by a team of experienced senior personnel with expertise in the business of our Group, will consist of Dr. Li Zequn, Mr. Jiang Ping, Mr. Lin Hsin-Tze and Mr. Li Junying to implement our Group’s policies and strategies.

Upon Listing, two out of nine Directors, namely Mr. Takao Nishijima and Ms. Mami Matsushita, will hold directorship or senior management positions with Tsugami Japan as set forth below:

<u>Name of Directors</u>	<u>Position with our Company</u>	<u>Position with Tsugami Japan</u>
Mr. Takao Nishijima	Chairman and Non-executive Director	Representative director, chief executive director and chairman of Tsugami Japan
Ms. Mami Matsushita	Non-executive Director	General manager of overseas business of Tsugami Japan

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Upon Listing, the board of our major operating subsidiary, PTC, will consist of nine directors, namely Mr. Takao Nishijima, Dr. Tang Donglei, Mr. Yoshiaki Aoyagi, Mr. Takeshi Takahashi, Mr. Hiroaki Kazama, Ms. Mami Matsushita, Dr. Li Zequn, Mr. Jiang Ping and Mr. Lin Hsin-Tze. Four out of nine directors of PTC, namely, Mr. Takao Nishijima, Ms. Mami Matsushita, Mr. Yoshiaki Aoyagi and Mr. Hiroaki Kazama hold directorship or senior management positions with Tsugami Japan as set forth below:

<u>Name of directors</u>	<u>Position with PTC</u>	<u>Position with Tsugami Japan</u>
Mr. Takao Nishijima	Director	Representative director, chief executive director and chairman of Tsugami Japan
Ms. Mami Matsushita	Director	General manager of overseas business of Tsugami Japan
Mr. Yoshiaki Aoyagi	Director	General manager of production control division of Tsugami Japan
Mr. Hiroaki Kazama	Director	General manager of sales planning & overseas division of Tsugami Japan

Notwithstanding the foregoing, we are of the view that the board and the senior management of our Company and PTC can operate and function independently from the directors of Tsugami Japan for the following reasons:

Our Company

- Dr. Tang Donglei and Mr. Yoshimasa Hashimoto, both being our executive Directors, have terminated their employment relationship with Tsugami Japan prior to the Listing. Dr. Tang Donglei and Mr. Yoshimasa Hashimoto will devote all of their time to the day-to-day operations and management of our Group;
- Mr. Tatsushi Hidano, although a Transferred Employee, does not hold any directorship or senior management position in the Tsugami Japan Group;

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- Mr. Takao Nishijima and Ms. Mami Matsushita, both being our non-executive Directors, are not involved in the day-to-day operations of our Company. Although there is no designation of executive or non-executive directors in our major operating subsidiary, PTC, taking into account that they are not involved in the daily management and operation of PTC, we consider that their roles in PTC are non-executive in nature. Dr. Ng Lai Man Carmen, our another non-executive Director, is independent from the Tsugami Japan Group;
- In the event that any conflict of interest arises between the Tsugami Japan Group and our Company, Mr. Takao Nishijima and Ms. Mami Matsushita will abstain from voting at the relevant meetings of the board of directors of our Company and (if applicable) the meetings of the board of directors of Tsugami Japan in respect of such matters of actual or potential conflict of interest;
- Mr. Jiang Ping and Mr. Lin Hsin-Tze in the senior management team do not have any employment relationship with any member of the Tsugami Japan Group, whilst Dr. Li Zequn and Mr. Li Junying, who are both Transferred Employees, do not hold any directorship or senior management positions in the Tsugami Japan Group. They will support the management of our Group to carry on the business independent from Tsugami Japan Group;
- In addition, the three independent non-executive Directors will also provide checks and balances over our Board's decision-making on significant transactions, connected transactions and other transactions involving any actual or potential conflict of interests;
- Our Company will also adopt corporate governance measures to manage potential conflicts of our Directors' interest after the Listing in accordance with the requirements of the Listing Rules. For more details, please refer to the paragraph headed "Corporate Governance Measures" in this section; and
- As part of the preparation for Listing, our Directors have received training on their responsibilities as directors of a Hong Kong listed company, including on their fiduciary duties to act in the best interest of our Group.

PTC

- Pursuant to the rules for meeting of the board adopted by PTC, in the event that a board resolution is proposed to be passed in relation to any transaction in which any member of the Tsugami Japan Group is materially interested, or if any conflict of interest arises between Tsugami Japan and PTC, Mr. Takao Nishijima, Ms. Mami Matsushita, Mr. Yoshiaki Aoyagi and Mr. Hiroaki Kazama will not be counted towards the quorum for such board meeting and will abstain from voting on the relevant board resolutions of PTC and (if applicable) at the meeting of the board of directors of Tsugami Japan in respect of such matter;

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- Mr. Takao Nishijima, Ms. Mami Matsushita, Mr. Yoshiaki Aoyagi and Mr. Hiroaki Kazama will not be involved in making decisions in connection with the ongoing connected transactions (if any) between Tsugami Japan Group and our Group. The other directors of PTC possess sufficient relevant industry experience to make decisions for and monitor such transactions.

Save for an executive Director (namely, Mr. Tatsusi Hidano) and two members of our senior management (namely, Dr. Li Zequn and Mr. Li Junying), none of our Directors and senior management members is a Transferred Employee as at the Latest Practicable Date. Further, none of the Transferred Employees has any managerial or operational duties in the Tsugami Japan Group. For further details, please refer to the section headed “Directors, Senior Management and Employees – Transferred employees” in this prospectus.

On the basis of the current board composition of our Company and PTC, it is believed that the board and senior management of our Company and PTC will operate and manage independently of Tsugami Japan Group. Our Group will therefore operate independently and in the interests of its shareholders as a whole upon Listing.

Financial Independence

All loans, advances and balances due to our Controlling Shareholder (other than in the ordinary and usual course of business of our Group) and its respective associates had been fully settled as at the Latest Practicable Date. All share pledges and guarantees provided by our Controlling Shareholder and its respective associates on our Group’s borrowing have also been fully released as at the Latest Practicable Date. We have sufficient capital and banking facilities to operate our business independently from our Controlling Shareholder and its respective associates. In addition, our financial system is independent from Tsugami Japan, and we have our own accounting systems, finance department, independent treasury function for cash receipts and payments and we make financial decisions according to our own business needs. Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholder after the Listing.

Administrative Independence

To ensure the independence of the operation and business of our Group from our Controlling Shareholder, we have our own organisational structure with independent departments, each with specific areas of responsibility. We have our own merchandising (including procurement and sales), production, quality control, administration, finance and human resources and other systems and teams which have been operating and are expected to continue to operate separately from our Controlling Shareholder. We also maintain a set of comprehensive internal control measures to facilitate the effective operation of our business.

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CORPORATE GOVERNANCE MEASURES

Our Controlling Shareholder and its close associates may not compete with us as provided in the Deed of Non-competition. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (i) our Articles of Association provide that, unless otherwise provided, a Director shall declare the nature of his/her interests in such matter and shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (ii) we are committed that our Board should include a balanced composition of executive Directors and independent non-executive Directors. We have appointed independent non-executive Directors and we believe that our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors, Senior Management and Employees – Board of Directors – Independent non-executive Directors” in this prospectus; and
- (iii) we have appointed Halcyon Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance.

SUBSTANTIAL SHAREHOLDER

So far as is known to our Directors or chief executive as at the Latest Practicable Date, the following person will, immediately prior to and following the completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options), have interests or short positions in our Shares or underlying Shares which fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10.0% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

<u>Name of Shareholder</u>	<u>Nature of interest</u>	Shares held as at the Latest Practicable Date, and prior to the Capitalisation Issue and the Global Offering		Shares held immediately following the completion of the Capitalisation Issue and the Global Offering	
		<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
Tsugami Japan . .	Beneficial owner	3 (L)	100.0%	270,000,000 (L)	75.0%

Note:

- (1) The letter “L” denotes the person’s long position in our Shares.

If the Over-allotment Option is fully exercised (assuming no Pre-IPO Share Options is exercised), Tsugami Japan will hold approximately 72.3% of our Shares.

Except as disclosed in this prospectus, our Directors and chief executive are not aware of any person (who is not a Director or chief executive of our Company) who will, immediately prior to and following the completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are to be issued upon the exercise of the Pre-IPO Share Options), have interests or short positions in any Shares or underlying Shares, which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the Capitalisation Issue and the Global Offering (without taking into account the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the Pre-IPO Share Options):

	<u>Nominal value HK\$</u>
Authorised share capital:	
<u>1,000,000,000</u> Shares of HK\$1.00 each	<u>1,000,000,000</u>
	<u>Aggregate nominal value HK\$</u>
Issued and to be issued, fully paid or credited as fully paid:	
3 Shares in issue as at the Latest Practicable Date	3
299,999,997 Shares to be issued pursuant to the Capitalisation Issue	299,999,997
<u>60,000,000</u> Shares to be issued under the Global Offering	<u>60,000,000</u>
<u>360,000,000</u> Total	<u>360,000,000</u>

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Capitalisation Issue and the Global Offering are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the Pre-IPO Share Options or any Shares which may be issued or repurchased by us pursuant to the Issue Mandate and the Repurchase Mandate as described below.

RANKINGS

The Offer Shares will be ordinary shares in the share capital of our Company and will rank pari passu in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this prospectus, save for the entitlement under the Capitalisation Issue.

SHARE CAPITAL

CAPITALISATION ISSUE

Pursuant to the written resolutions of our sole Shareholder passed on 4 September 2017, conditional on the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the allotment and issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to capitalise HK\$299,999,997 standing to the credit of the share premium account of our Company by applying such sum in paying up in full 299,999,997 Shares at par, for allotment and issue to Tsugami Japan, the sole shareholder appearing on the register of members of our Company at the close of business immediately prior to the completion of the Listing.

GENERAL MANDATE TO ALLOT AND ISSUE NEW SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of our Company with an aggregate nominal value of not more than the sum of:

- (1) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options); and
- (2) the aggregate nominal amount of share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to our Shares which they are authorised to issue under this Issue Mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement subject to applicable requirements including the Listing Rules, or on the exercise of the Pre-IPO Share Options.

This Issue Mandate will expire at the earliest of (i) the conclusion of our Company's next annual general meeting, (ii) the date by which our Company's next annual general meeting is required by our Articles of Association or the Cayman Companies Law or applicable laws in the Cayman Islands to be held; or (iii) such mandate being revoked or varied by ordinary resolution by our Shareholders in general meeting (the "**Mandate Relevant Period**").

Further information on this Issue Mandate is set out in the section headed "Statutory and General Information – 1. Further information about our Group – Written resolutions of the sole Shareholder of our Company passed on 4 September 2017" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options).

SHARE CAPITAL

This Repurchase Mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which our Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information – 4. Repurchases of our Company’s securities” in Appendix V to this prospectus.

This Repurchase Mandate will expire at the earliest of (i) the conclusion of our Company’s next annual general meeting, (ii) the date by which our Company’s next annual general meeting is required by our Articles of Association or the Cayman Companies Law or applicable laws in the Cayman Islands to be held; or (iii) such mandate being revoked or varied by ordinary resolution of our Shareholders at a general meeting.

Further information on this general mandate is set out in the section headed “Statutory and General Information – 1. Further information about our Group – Written resolutions of the sole Shareholder of our Company passed on 4 September 2017” in Appendix V to this prospectus.

PRE-IPO SHARE OPTION SCHEME

We conditionally adopted the Pre-IPO Share Option Scheme on 14 March 2014. A summary of the principal terms of the Pre-IPO Share Option Scheme are set out in the section headed “Statutory and General Information – 8. Pre-IPO Share Option Scheme” in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and the Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) subdivide its Shares into Shares of smaller amount; and (iv) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Companies Law, reduce its share capital or capital redemption reserve by its shareholders passing special resolution. For further details, please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law – Summary of the constitution of our Company – 2. Articles of Association – 2.5 Alteration of capital” in Appendix IV to this prospectus.

SHARE CAPITAL

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and the Articles of Association, all or any of the special rights attached to our Shares or any class of our shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of our shares of that class. For further details, please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law – Summary of the constitution of our Company – 2. Articles of Association – 2.4 Variation of rights of existing shares or classes of shares” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our consolidated financial information, including the accompanying notes thereto, set out in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS. The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. Please also see the sections headed “Risk Factors” and “Forward-looking Statements” in this prospectus.

OVERVIEW

We are an established foreign-owned CNC high precision machine tool manufacturer in the PRC. According to Frost & Sullivan, we ranked fourth in the CNC high precision machine tool industry in the PRC in terms of revenue in 2016, and were the largest foreign-owned CNC high precision machine tool manufacturer in the PRC in terms of revenue in 2016. Further, according to Frost & Sullivan, we ranked first in the PRC precision automatic lathe market in terms of revenue in 2016 with a market share of approximately 34.8%, where the precision automatic lathe market accounted for approximately 1.4% of the overall PRC CNC high precision machine tool market in terms of sales volume in 2016. The PRC CNC high precision machine tool market is led by a small number of major domestic players with the rest of the market highly fragmented. The PRC CNC high precision machine tool market accounted for approximately 41.7% of the total PRC machine tool industry in terms of revenue in 2016.

Established by Tsugami Japan, we started our business in the PRC in 2003. Throughout the years, we have primarily engaged in the manufacture and sales of a wide range of CNC high precision machine tools under the TSUGAMI brand, which has been widely recognised by manufacturers engaged in various industries. Our five major CNC high precision machine tool products are precision automatic lathes, precision turret machines, precision machining centres, precision grinding machines and precision thread and form rolling machines.

We primarily sell our CNC high precision machine tools in the PRC via our distributors to end customers engaged in various industries, including IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery. We also sell CNC high precision machine tools to certain of our major end customers in the PRC by way of direct sales. Since June 2016, we have also been selling our CNC high precision machine tools to Taiwan through our Taiwanese distributor. Further, in view of our mass production capabilities at our Pinghu Production Plants, the Tsugami Japan Group also procures a portion of our CNC high precision machine tools to sell to its customers based in the Other Markets, with or without further customisations.

FINANCIAL INFORMATION

For the three years ended 31 March 2015, 2016 and 2017, we recorded a total revenue of approximately RMB2,057.7 million, RMB1,357.5 million and RMB1,636.3 million, respectively. Our profit for the three years ended 31 March 2015, 2016 and 2017 was approximately RMB178.3 million, RMB55.8 million and RMB112.6 million, respectively. Our revenue was relatively higher for the year ended 31 March 2015, primarily due to our sales to the Relevant Manufacturers. As we provided certain CNC high precision machine tools to the Relevant Manufacturers during the Track Record Period, we completed a large amount of sales orders from the Relevant Manufacturers for the year ended 31 March 2015. Our gross profit margin for the three years ended 31 March 2015, 2016 and 2017 was approximately 19.8%, 16.0% and 17.8%, respectively.

BASIS OF PRESENTATION

During the Track Record Period, our Group's principal activities were conducted through PTC and its subsidiaries established in the PRC. PTC was beneficially owned and controlled by our Controlling Shareholder, Tsugami Japan. Our Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on 2 July 2013, and became the holding company for our subsidiaries comprising our Group following the completion of our Reorganisation. As the Reorganisation only involved inserting new holding companies at the top of an existing group and has not resulted in any change of economic substances, the financial information comprises our Company and its subsidiaries and has been presented as a continuation of the existing company using the pooling of interests method.

Accordingly, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of financial position, the consolidated statements of change in equity and the consolidated statements of cash flows of our Group for the Track Record Period as set out in Appendix I to this prospectus were prepared as if the current group structure had been in existence through the Track Record Period. All intra-group transactions and balances from intra-group transactions have been eliminated on consolidation.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, or may be expected to be in the future, significantly affected by a number of factors, many of which may be beyond our control. A discussion of certain of the key factors is set out below.

FINANCIAL INFORMATION

Growth of the PRC economy and the PRC CNC high precision machine tool industry

We primarily engage in the manufacture and sales of a wide range of CNC high precision machine tools in the PRC. According to Frost & Sullivan, the PRC economy has maintained a steady growth in recent years, achieving a CAGR for nominal GDP of approximately 9.0% from 2011 to 2016. Economic growth in the PRC contributes to increases in disposable income and consumer spending among its population, which, in turn, drive demand for consumer products, such as consumer electronic devices and automobile. The CNC high precision machine tool industry in the PRC also experienced a solid growth from 2011 to 2016 due to a series of favourable PRC government policies including, Major Special Project of High-end Numerical Control Machine and Basic Manufacturing Equipment (《高檔數控機床與基礎製造裝備重大事項》) and Three year Prospering Goal of Machine Tool Industry (《機床工具行業三年振興目標》) in 2009, and China Manufacturing 2025 (Draft) (《中國製造(2025)》)(草案) in 2014, all of which aimed to increase the use of advanced CNC high precision machine tools in various downstream industries in the PRC. According to Frost & Sullivan, the revenue and sales volume of CNC high precision machine tool industry in the PRC reached approximately RMB118.5 billion and 431,300 units in 2016, representing a CAGR of approximately 4.3% and 6.0% from 2011 to 2016, respectively, and is expected to reach approximately RMB156.1 billion and 602,200 units in 2021, representing a CAGR of approximately 5.7% and 6.9% from 2016 to 2021, respectively. We believe that our current position in the PRC CNC high precision machine tool market will allow us to enjoy the future growth of the PRC economy and the PRC CNC high precision machine tool industry. However, any slow down or decline in the PRC economy may adversely affect consumers' purchasing power on consumer products, which in turn, may affect the PRC CNC high precision machine tool market and demand for our CNC high precision machine tools. If that happens, our future business, results of operations and financial condition may be materially and adversely affected.

Foreign exchange

We currently sell a portion of our CNC high precision machine tools to the Tsugami Japan Group and procure certain parts and components from Tsugami Japan. During the Track Record Period, a substantial portion of our overseas sales and procurement was denominated and settled in JPY. Although we realised gain on foreign exchange for the year ended 31 March 2015 of approximately RMB15.6 million, primarily as a result of the effect of the general depreciation of JPY and USD against Renminbi on our overseas procurement from Tsugami Japan denominated in JPY and our bank loans denominated in USD, which were partially offset by the same depreciation effect on our overseas sales to the Tsugami Japan Group denominated in JPY, we realised losses on foreign exchange for the years ended 31 March 2016 and 2017 of approximately RMB16.0 million and RMB2.1 million, respectively. Such foreign exchange losses were primarily due to the effect of the general appreciation of JPY and USD against Renminbi on our procurement from Tsugami Japan denominated in JPY and our repayment of short-term bank borrowings denominated in USD, which were partially offset by the same appreciation effect on our sales to the Tsugami Japan Group denominated in JPY. In order to reduce our foreign exchange exposure, since May 2016, we have started and gradually settled part of our sales to the Tsugami Japan Group and part of our procurement from Tsugami Japan

FINANCIAL INFORMATION

in Renminbi instead of JPY. For the year ended 31 March 2017, approximately 29.4% of our sales to Tsugami Japan Group and approximately 16.1% of our purchases from Tsugami Japan were denominated in JPY, respectively. Further, we had also settled all of our bank loans in other currencies as at the Latest Practicable Date. All of our bank loans are currently denominated in Renminbi. However, we cannot assure you that we will not continue to suffer losses on foreign exchange in the future. Further, as we have been selling our CNC high precision machine tools to Taiwan directly since June 2016, any depreciation of other currencies against Renminbi may also cause the prices of our CNC high precision machine tools denominated in currencies other than Renminbi to increase, thereby making them less appealing to the customers in markets outside the PRC. Under such circumstances, our future business, results of operations and financial condition may be materially and adversely affected. For further details of how foreign exchange rates affect our business, results of operations and financial condition, please refer to the sections headed “Risk Factors – Risks relating to our business – Fluctuation in foreign exchange rates may materially and adversely affect our business, results of operations and financial condition”, “Financial Information – Factors affecting our results of operations – Foreign exchange” and “Financial Information – Quantitative and qualitative disclosures about market risks – Foreign currency risk” in this prospectus.

Cost of parts and components

The principal parts and components we use in the manufacture of our CNC high precision machine tools are CNC system panels, spindles, lathe beds, rails, ball screws and other processed metal parts. The prices of these parts and components are typically subject to volatility caused by external conditions, such as market supply and demand and foreign exchange rates. If the increases of actual market prices of our principal parts and components exceed the price range we predict when we negotiate our procurement with our suppliers and our product prices with our customers, the increased cost of parts and components may have a material and adverse effect on our business, results of operations and financial condition. In order to strengthen our supply chain and further reduce our production costs and enhance our cost efficiency, we started to develop and manufacture certain principal parts and components and have been developing business relationship and seeking new business cooperations with domestic suppliers to better control our costs. However, we cannot assure you that our future plans and strategies would be successfully implemented. For more details of our risks in relations to our supply chain, please refer to the section headed “Risk Factors – Risks relating to our business – We may be unable to effectively manage the supply and quality of our principal parts and components, and any price fluctuations of the principal parts and components used in our production may increase our production costs, which may materially and adversely affect our profit margin and results of operations” in this prospectus.

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Competition

The CNC high precision machine tool industry in the PRC is led by a small number of major players, with the rest of the market highly fragmented. We currently compete primarily with several domestic machine tool manufacturers in the PRC on the basis of design, customisation and development capabilities, customers, product quality, price, lead time in production and customer services. For a detailed description of our competitors, please refer to the section headed “Industry Overview” in this prospectus. According to Frost & Sullivan, the competition in the CNC high precision machine tool industry in the PRC is expected to intensify as the major market players will continue to strengthen their respective advantages and resources to increase their market share due to the great potential for growth. In particular, the competition in the eastern China market will continue and more new CNC high precision machine tool manufacturers are expected to focus on the current undeveloped market, such as the western and northern China. If we fail to compete effectively or grasp the opportunities arising from these regions in the PRC, our market share and profit margins may decline and our business, results of operations and financial condition may be materially and adversely affected.

SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

We have identified certain accounting policies that are most significant to the preparation of our consolidated financial statements. We have also made certain accounting judgements and assumptions in the process of applying our accounting policies. When reviewing our consolidated financial statements, you should consider (i) our selection of significant accounting policies; (ii) the judgement and assumptions affecting the application of such policies; and (iii) the sensitivity or reported results to change in conditions and assumptions. Our significant accounting policies, judgements and estimates, which are important for an understanding of our results of operations and financial position, are set out in more detail in notes 4 and 5 to the accountants’ report in Appendix I to this prospectus.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following table sets forth the consolidated statements of profit or loss and other comprehensive income for the periods indicated:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Revenue	2,057,730	1,357,465	1,636,281
Costs of sales	(1,649,734)	(1,140,356)	(1,345,080)
Gross profit	407,996	217,109	291,201
Other income and gains	18,746	11,922	3,957
Selling and distribution expenses	(88,396)	(68,199)	(76,846)
Administrative expenses	(60,988)	(47,225)	(41,527)
Other expenses	(3,098)	(17,078)	(3,795)
Finance costs	(20,961)	(18,311)	(13,060)
Profit before tax	253,299	78,218	159,930
Income tax expenses	(75,004)	(22,410)	(47,364)
Profit and total comprehensive income for the year	178,295	55,808	112,566

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

During the Track Record Period, we derived substantially all of our revenue from the sales of CNC high precision machine tools. Our revenue primarily represents the net invoiced value of our CNC high precision machine tools sold, less allowance for returns, trade discounts and various types of government surcharges. For our sales in the PRC, we recognise our revenue when our customers pick up our CNC high precision machine tools from our Pinghu Production Plants or when we have delivered our CNC high precision machine tools directly to locations designated by our customers. For our sales to overseas, we recognise our revenue when we have delivered our CNC high precision machine tools across the ship's rail at the designated port of shipment.

FINANCIAL INFORMATION

The table below sets out our revenue by product category for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue
Our main products						
Precision automatic lathes	1,430,727	69.5	801,281	59.0	1,047,911	64.0
Precision turret machines	260,466	12.7	235,502	17.4	290,079	17.7
Precision machining centres	243,495	11.8	133,468	9.8	120,755	7.4
Precision grinding machines	73,384	3.6	80,984	6.0	98,453	6.0
Precision thread and form rolling machines	10,433	0.5	10,074	0.7	11,159	0.7
Others ⁽¹⁾	39,225	1.9	96,156	7.1	67,924	4.2
Total:	2,057,730	100.0	1,357,465	100.0	1,636,281	100.0

Note:

- Others primarily include sales of accessory parts and components.

The table below sets out our sales volume and average selling price of our CNC high precision machine tools by product category for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	Sales volume	Average price/unit (RMB'000)	Sales volume	Average price/unit (RMB'000)	Sales volume	Average price/unit (RMB'000)
Our main products						
Precision automatic lathes	4,611	310.3	3,039	263.7	3,638	288.0
Precision turret machines	936	278.3	943	249.7	1,077	269.3
Precision machining centres	1,066	228.4	539	247.6	478	252.6
Precision grinding machines	228	321.9	231	350.6	247	398.6
Precision thread and form rolling machines	35	298.1	35	287.8	41	272.2
Total/Average:	6,876	293.6	4,787	263.5	5,481	286.1

FINANCIAL INFORMATION

For the three years ended 31 March 2015, 2016 and 2017, our revenue was approximately RMB2,057.7 million, RMB1,357.5 million and RMB1,636.3 million, respectively. Our revenue decreased for the year ended 31 March 2016 as compared to the same for the year ended 31 March 2015, primarily due to our decreased sales to the Relevant Manufacturers. Our relative higher revenue for the year ended 31 March 2015 was primarily due to our significant increased sales to the Relevant Manufacturers for the same period, which was due to us receiving a large amount of sales orders from them that, to the best knowledge of our Directors, ahead of the release of certain major new product of the Electronics Company. For the three years ended 31 March 2015, 2016 and 2017, our revenue derived from the sales to the Relevant Manufacturers was approximately RMB588.1 million, RMB13.8 million and RMB4.7 million, respectively, representing approximately 28.6%, 1.0% and 0.3% of our revenue for the same periods, respectively.

Our revenue increased for the year ended 31 March 2017 as compared to the year ended 31 March 2016, primarily due to our business growth during the same period. Such business growth was primarily the results of (i) the increase in sales of our CNC high precision machine tools to new customers in the PRC as we continued to expand our sales network; (ii) the release of certain CNC high precision machine tools that had higher selling prices in general; (iii) the increase in sales of CNC high precision machine tools with various specifications and/or customisations that had higher selling prices in general; (iv) the expansion of application uses of our CNC high precision machine tools, especially for the industries of IT and electronic products and automobile; and (v) the general increase in demand of our CNC high precision machine tools from our existing customers in the PRC.

We primarily sell our CNC high precision machine tools in the PRC via our distributors to end customers that are engaged in various industries, including IT and electronic products, automobile, medical apparatus, pneumatic component manufacturing and engineering machinery. We also sell CNC high precision machine tools to certain of our major end customers in the PRC by way of direct sales. Since June 2016, we have also been selling our CNC high precision machine tools to Taiwan through our Taiwanese distributor. Further, in view of our mass production capabilities at our Pinghu Production Plants, the Tsugami Japan Group also procures a portion of our CNC high precision machine tools to sell to its customers based in the Other Markets, with or without further customisations. For more details of our sales to the Tsugami Japan Group, please refer to the sections headed “Business – Overseas sales” and “Connected Transactions – Continuing connected transactions – Non-exempt continuing connected transactions – Sales of our CNC high precision machine tools to Tsugami Japan Group” in this prospectus. For the three years ended 31 March 2015, 2016 and 2017, our sales to the Tsugami Japan Group amounted to approximately RMB559.2 million, RMB584.2 million and RMB548.3 million, respectively, representing approximately 27.2%, 43.0% and 33.5% of our revenue for the same periods, respectively.

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The table below sets out our revenue by customer type for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue	RMB ('000)	% of total revenue
Distributors	854,233	41.5	703,565	51.8	1,041,347	63.6
Relevant Manufacturers	588,052	28.6	13,838	1.0	4,723	0.3
Other direct sales customers.	56,234	2.7	55,840	4.2	41,881	2.6
Tsugami Japan Group	559,211	27.2	584,222	43.0	548,330	33.5
Total:	2,057,730	100.0	1,357,465	100.0	1,636,281	100.0

Note:

- Our sales to customers also included our sales of accessory parts and components.

Cost of sales

Our cost of sales primarily consists of cost of parts and components, production overhead and direct labour. The following table sets out a breakdown of our cost of sales for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB ('000)	% of total cost of sales	RMB ('000)	% of total cost of sales	RMB ('000)	% of total cost of sales
Parts and components	1,297,162	78.6	878,173	77.0	1,032,780	76.8
Production overhead	275,802	16.7	189,532	16.6	228,772	17.0
Direct labour	76,770	4.7	72,651	6.4	83,528	6.2
Total cost of sales:	1,649,734	100.0	1,140,356	100.0	1,345,080	100.0

Our cost of sales was approximately RMB1,649.7 million, RMB1,140.4 million and RMB1,345.1 million for the three years ended 31 March 2015, 2016 and 2017, respectively, representing approximately 80.2%, 84.0% and 82.2% of our revenue for the same periods, respectively. Our cost of sales decreased but as a percentage of our revenue increased for the year ended 31 March 2016, primarily due to (i) our decreased sales to the Relevant Manufacturers; and (ii) some of our production overhead costs were fixed costs and were relatively less sensitive to our decreased sales for the year ended 31 March 2016. Our cost of sales increased but as a percentage of revenue decreased for the year ended 31 March 2017, primarily due to our increased sales for the same period. We had managed to control our cost of sales during the Track Record Period, primarily due to our customisation and development capabilities to develop and manufacture certain principal parts and components and our increased domestic procurement instead of overseas procurement at relatively competitive pricing.

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The cost of parts and components was the largest component of our cost of sales for the Track Record Period, representing approximately 78.6%, 77.0% and 76.8% of our total cost of sales, respectively, and representing approximately 63.0%, 64.7% and 63.1% of our revenue for the three years ended 31 March 2015, 2016 and 2017, respectively. Our principal parts and components used for the manufacture of our CNC high precision machine tools primarily consist of CNC system panels, spindles, lathe beds, rails, ball screws and other processed metal parts. The cost of CNC system panels was the largest component of our cost of parts and components, representing approximately 22.9%, 22.3% and 22.6% of our total cost of parts and components for the three years ended 31 March 2015, 2016 and 2017, respectively. The costs of spindles and lathes beds were the second and third largest components of our cost of parts and components, representing approximately 11.2%, 10.6% and 10.1%, and approximately 5.3%, 5.8% and 5.6% of our total cost of parts and components for the same period, respectively. Apart from the above three largest components, there was no other single part or component, the cost of which exceeded 5.0% of our total cost of parts and components during the Track Record Period. During the Track Record Period, we procured most of the CNC system panels from the CNC System Panel Manufacturer through Tsugami Japan due to the long-term and strong business relationship between Tsugami Japan and the CNC System Panel Manufacturer. Since December 2016, we have directly procured the CNC system panels from the CNC System Panel PRC Supplier instead of procuring through Tsugami Japan for our CNC high precision machine tools sold in China. Further, due to our customisation and development capabilities and established relationship with our domestic suppliers, we had gradually increased domestic purchases and reduced our procurement from Tsugami Japan during the Track Record Period. For more details of our procurement from Tsugami Japan, please refer to the sections headed “Business – Procurement – Our suppliers” and “Connected Transactions – Continuing connected transactions – Non-exempt continuing connected transactions – Procurement from Tsugami Japan” in this prospectus.

Production overhead mainly comprises our Trademark and Technology license fees, subcontracting fees, materials used for our production, indirect labour, depreciation of plant and production machinery and equipment, maintenance and utilities. Our production overhead was the second largest component of our cost of sales for the Track Record Period, representing approximately 16.7%, 16.6% and 17.0% of our total cost of sales for the three years ended 31 March 2015, 2016 and 2017, respectively. Our cost of production overheads during the Track Record Period was primarily affected by our Technology license fees paid to Tsugami Japan as a result of the demand for and sales of our CNC high precision machine tools. For the three years ended 31 March 2015, 2016 and 2017, our Trademark and Technology license fees paid to Tsugami Japan amounted to, in aggregate, approximately RMB93.7 million, RMB58.8 million and RMB74.1 million, respectively, representing approximately 34.0%, 31.0% and 32.4% of our total costs of production overhead for the same periods, respectively. Our cost of production overheads also include our subcontracting fees paid to the third-party subcontracting partners for subcontracting part of our machining and metal processing as a result of the demand for and production of our CNC high precision machine tools. For the three years ended 31 March 2015, 2016 and 2017, our subcontracting fees paid to the third-party subcontracting partners amounted to approximately RMB67.6 million, RMB35.4 million and RMB46.4 million, respectively, representing approximately 24.5%, 18.7% and 20.3% of our total costs of production overhead for the same periods, respectively. For more details of our licencing of the Trademarks and the Technology from Tsugami Japan, please refer to the sections headed “Business – Customisation and development – Licencing the Trademarks and the Technology from Tsugami Japan” and “Connected Transactions – Continuing connected transactions – Non-exempt continuing connected transactions – Licencing of the Trademarks and the Technology from Tsugami Japan” in this prospectus.

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Direct labour was the other major component of our cost of sales for the Track Record Period, representing approximately 4.7%, 6.4% and 6.2% of our total cost of sales for the three years ended 31 March 2015, 2016 and 2017, respectively. Our cost for direct labour during the Track Record Period was primarily affected by the number of employees engaged in the production operation as a result of the demand and sales of our CNC high precision machine tools and the general level of salaries and benefits for our production staff.

During the Track Record Period, cost of sales of our CNC high precision machine tools by product category as a percentage of our total cost of sales were largely in line with their respective percentage contribution to our revenue. The following table sets out a breakdown of our cost of sales by product category for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB (‘000)	% of total cost of sale	RMB (‘000)	% of total cost of sale	RMB (‘000)	% of total cost of sale
Our main products						
Precision automatic lathes	1,100,809	66.7	657,883	57.7	862,346	64.1
Precision turret machines	233,803	14.2	218,574	19.2	253,879	18.9
Precision machining centres	228,689	13.9	122,578	10.7	110,817	8.2
Precision grinding machines	53,048	3.2	54,483	4.8	63,975	4.8
Precision thread and form rolling machines	6,367	0.4	7,524	0.6	9,801	0.7
Others ⁽¹⁾	27,018	1.6	79,314	7.0	44,262	3.3
Total:	1,649,734	100.0	1,140,356	100.0	1,345,080	100.0

Note:

- Others primarily include sales of accessory parts and components.

For illustration purposes only, we set out below a sensitivity analysis of our profit for the year with reference to the fluctuation of our total cost of parts and components during the Track Record Period. The following table demonstrates the impact of the hypothetical increase or decrease in the total cost of our parts and components on our profit for the year, while all other factors remain unchanged:

	Hypothetical increase/ decrease of 10.0%	Hypothetical increase/ decrease of 20.0%	Hypothetical increase/ decrease of 30.0%
	(RMB’000)	(RMB’000)	(RMB’000)
(Decrease)/Increase in profit for the year:			
Year ended 31 March 2015	-/+ 97,287	-/+ 194,574	-/+ 291,861
Year ended 31 March 2016	-/+ 65,863	-/+ 131,726	-/+ 197,589
Year ended 31 March 2017	-/+ 77,459	-/+ 154,917	-/+ 232,376

Note: The pricing trends of the major raw materials used for our principal parts and components during the Track Record Period were either relatively stable or fluctuated mainly within the range of 10.0% to 30.0%. As such, our Directors are of the view that it is prudent to use 10.0%, 20.0% and 30.0% in the above sensitivity analysis.

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Gross profit and gross profit margin

The following table sets out our gross profit and gross profit margin by product category for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	Gross profit RMB (’000)	Gross profit margin (%)	Gross profit RMB (’000)	Gross profit margin (%)	Gross profit RMB (’000)	Gross profit margin (%)
Our main products						
Precision automatic lathes	329,918	23.1	143,398	17.9	185,565	17.7
Precision turret machines	26,663	10.2	16,928	7.2	36,200	12.5
Precision machining centres	14,806	6.1	10,890	8.2	9,938	8.2
Precision grinding machines	20,336	27.7	26,501	32.7	34,478	35.0
Precision thread and form rolling machines	4,066	39.0	2,550	25.3	1,358	12.2
Others ⁽¹⁾	12,207	31.1	16,842	17.5	23,662	34.8
Total:	407,996	19.8	217,109	16.0	291,201	17.8

Note:

- Others primarily include sales of accessory parts and components. Such parts and components are typically to replace the parts and components consumed during the uses of our CNC high precision machine tools or specifically produced with customisations tailored to the new requirements and/or needs of our customers. As these parts and components are not mass produced, their selling prices and gross profit margins vary.

The following table sets out our gross profit and gross profit margin by customer type for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	Gross profit RMB (’000)	Gross profit margin (%)	Gross profit RMB (’000)	Gross profit margin (%)	Gross profit RMB (’000)	Gross profit margin (%)
Distributors	192,315	22.5	181,611	25.8	244,083	23.4
Relevant Manufacturers	155,208	26.4	3,804	27.5	1,306	27.7
Other direct sales customers	22,437	39.9	15,325	27.4	15,247	36.4
Tsugami Japan Group	38,036	6.8	16,369	2.8	30,565	5.6
Total:	407,996	19.8	217,109	16.0	291,201	17.8

Note:

- Our overseas sales to customers also included our sales of accessory parts and components.

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For the three years ended 31 March 2015, 2016 and 2017, our gross profit was approximately RMB408.0 million, RMB217.1 million and RMB291.2 million, respectively, and our gross profit margin was approximately 19.8%, 16.0% and 17.8%, respectively. Our gross profit and gross profit margin decreased for the year ended 31 March 2016 as compared to the same for the year ended 31 March 2015, primarily due to our decreased sales of our CNC high precision machine tools with various specifications and/or customisations that had higher selling prices and gross profit margin in general to the Relevant Manufacturers during the year ended 31 March 2016. The decrease of our gross profit margin for the year ended 31 March 2016 was also primarily attributable to the decrease in the general economies of scale resulting from the decrease in our production volume for the same period. Our gross profit and gross profit margin both increased from the year ended 31 March 2016 to the year ended 31 March 2017. The increase in our gross profit for the year ended 31 March 2017 was primarily due to our increased sales in the PRC as a result of our continuous business expansion. The increase in our overall gross profit margin for the same period was primarily due to the increase in gross profit margins of certain of our CNC high precision machine tools sold in the PRC with various customisations and/or specifications that had higher gross profit margins in general to end customers engaged in the automobile industry, the general economies of the scale resulting from the increase in our production volume for the year ended 31 March 2017, and our ability to better control our production costs due to our customisation and development capabilities to develop and manufacture certain principal parts components and our increased domestic procurement instead of overseas procurement at relatively competitive pricing.

Other income and gains

Our other income and gains primarily consist of gain on foreign exchange, government grants, bank interest income, gain on disposal of items of property, plant and equipment and others. The following table sets out a breakdown of our other income and gains for the periods indicated:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Bank interest income	850	402	516
Gain on disposal of items of property, plant and equipment	–	239	113
Government grants	1,951	10,799	3,134
Gain on foreign exchange	15,622	–	–
Others	323	482	194
Total:	18,746	11,922	3,957

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Government grants mainly represented the supportive incentive granted by the local government to support local business enterprises for the purpose of encouraging business development. Pursuant to the investment arrangements between the administrative committee of Pinghu Economic and Technology Development District and Tsugami Japan, the administrative committee of Pinghu Economic and Technology Development District agreed that from the calendar year that PTC began to profit from manufacturing and selling CNC high precision machine tools, PTC would enjoy PRC enterprise income tax subsidies for 10 consecutive calendar years since the year when PTC becomes profitable as stipulated under the investment agreement. In this regard, PTC became profitable in the calendar year of 2006 and started to be entitled to the PRC enterprise income tax subsidies for the calendar year of 2006 to 2015. Pursuant to the investment agreements, (i) PTC was exempted from paying PRC enterprise income tax in full for the first two calendar years; (ii) PTC was entitled to a half reduction of the PRC enterprise income tax for the following three calendar years, among which the part retained for local government was fully refunded to PTC; and (iii) half of the PRC enterprise income tax retained for local government was refunded to PTC for the last five calendar years. PTC received government grants of approximately RMB1.7 million, RMB10.2 million and RMB2.6 million for the three years ended 31 March 2015, 2016 and 2017, respectively. There were no unfulfilled conditions or other contingencies attached to the grants. The other government grants were mainly one-off government grants, such as subsidies for industry development (工發資金補助), subsidies for social security for high school graduates and subsidies for foreign economic and trade development. The increase in our government grants for the year ended 31 March 2016 was primarily due to our tax subsidy received from the local government in relation to our tax paid for the calendar year of 2014.

We realised gain on foreign exchange of approximately RMB15.6 million for the year ended 31 March 2015. Such gain on foreign exchange arose primarily from the effect of the general depreciation of JPY and USD against Renminbi for the year ended 31 March 2015 on our overseas procurement from Tsugami Japan denominated in JPY and our bank loans denominated in USD, which were partially offset by the same depreciation effect on our overseas sales to the Tsugami Japan Group denominated in JPY.

Selling and distribution expenses

Selling and distribution expenses primarily consist of staff salaries and benefits, transportation and insurance costs, warranty expenses, travelling expenses, office utility expenses, marketing and advertisement expenses and depreciation costs. The following table sets out a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB (‘000)	% of total selling and distribution expenses	RMB (‘000)	% of total selling and distribution expenses	RMB (‘000)	% of total selling and distribution expenses
Staff salaries and benefits	31,530	35.7	33,065	48.5	33,237	43.2
Transportation and insurance costs	21,692	24.5	19,118	28.0	18,575	24.2
Warranty expenses	20,503	23.2	2,085	3.0	10,662	13.9
Travelling expenses	6,921	7.8	7,000	10.3	6,918	9.0
Office utility expenses	6,602	7.5	5,913	8.7	6,772	8.8
Marketing and advertisement expenses	908	1.0	788	1.2	577	0.8
Depreciation costs	240	0.3	230	0.3	105	0.1
Total selling and distribution expenses:	88,396	100.0	68,199	100.0	76,846	100.0

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For the three years ended 31 March 2015, 2016 and 2017, our selling and distribution expenses amounted to approximately RMB88.4 million, RMB68.2 million and RMB76.8 million, respectively, representing approximately 4.3%, 5.0% and 4.7% of our revenue for the same periods, respectively.

Salaries and staff benefits were the largest component of our selling and distribution expenses, representing approximately 35.7%, 48.5% and 43.2% of our total selling and distribution expenses for the three years ended 31 March 2015, 2016 and 2017, respectively. As we continue to expand our sales network in the PRC, we have recruited additional sales and marketing personnel to increase our sales and marketing efforts.

Transportation and insurance expenses were the second largest component of our selling and distribution expenses, representing approximately 24.5%, 28.0% and 24.2% of our total selling and distribution expenses for the three years ended 31 March 2015, 2016 and 2017, respectively. Our transportation and insurance expenses mainly represent our delivery and insurance costs in association with our sales. Our relatively higher transportation and insurance expenses for the year ended 31 March 2015 was primarily due to our sales and delivery in the PRC as a result of our increased sales to the Relevant Manufacturers and to our distributors in the PRC for end customers primarily engaged in the IT and electronic product and automobile industries in that year. Nevertheless, the general decrease in our transportation and insurance expenses during the Track Record Period was primarily attributable to the price adjustment of certain third-party logistics company engaged by us as a result of our increased sales and more competitive market environment.

Warranty expenses were generally the third largest component of our selling and distribution expenses, representing approximately 23.2%, 3.0% and 13.9% of our total selling and distribution expenses for the three years ended 31 March 2015, 2016 and 2017, respectively. Our warranty expenses mainly represent the accruals of our future product warranty expenses, primarily based on our historical sales in the PRC. We typically are not responsible for the aftersales services and technical support for our CNC high precision machine tools sold to the Tsugami Japan Group. As such, we generally provide relatively lower selling prices of our CNC high precision machine tools to the Tsugami Japan Group for our sales to them.

Travelling expenses were the other major component of our selling and distribution expenses, representing approximately 7.8%, 10.3% and 9.0% of our total selling and distribution expenses for the three years ended 31 March 2015, 2016 and 2017, respectively. Our travelling expenses during the Track Record Period primarily represented the costs for our sales and customer service team members to travel and provide aftersales services and technical support to our customers and end customers.

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Administrative expenses

Our administrative expenses primarily consist of salaries and benefits for management, administrative and financial personnel, including our share-based payment by virtue of the Pre-IPO Share Option, administrative costs, customisation and development expenses, depreciation expenses relating to property, plant and equipment used for administrative purposes and amortisation expenses for our management information systems, other taxes and levies, and listing expenses. The following table sets out a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 March					
	2015		2016		2017	
	RMB (‘000)	% of total administrative expenses	RMB (‘000)	% of total administrative expenses	RMB (‘000)	% of total administrative expenses
Staff salaries and benefits	25,781	42.3	19,843	42.0	15,232	36.7
Administrative costs	4,408	7.2	6,318	13.4	4,844	11.7
Customisation and development expenses	10,312	16.9	8,083	17.1	4,661	11.2
Depreciation and amortisation	2,772	4.5	3,577	7.6	3,942	9.5
Other taxes and levies	3,906	6.4	3,282	6.9	3,191	7.7
Listing expenses	13,809	22.7	6,122	13.0	9,657	23.2
Total administrative expenses:	60,988	100.0	47,225	100.0	41,527	100.0

For the three years ended 31 March 2015, 2016 and 2017, our administrative expenses were approximately RMB61.0 million, RMB47.2 million and RMB41.5 million, respectively, representing approximately 3.0%, 3.5% and 2.5% of our revenue for the same periods, respectively. Our administrative expenses decreased by approximately 22.6% for the year ended 31 March 2016 as compared to the same for the year ended 31 March 2015, primarily due to the decreases in our share-based payment by virtue of the Pre-IPO Share Options and our listing expense incurred for the year ended 31 March 2016. Our administrative expenses further decreased by approximately 12.1% for the year ended 31 March 2017, primarily due to the decreases in our customisation and development expenses and our share-based payment by virtue of the Pre-IPO Share Options for the year ended 31 March 2017. In recognition of the contributions of and to attract, retain and motivate our employees and executive officers, we introduced the Pre-IPO Share Option Scheme which was effective on 14 March 2014. The fair value of the Pre-IPO Share Options granted during the year ended 31 March 2014 amounted to approximately HK\$13.0 million, of which the relevant share option expenses of approximately RMB6.8 million, RMB1.5 million and RMB0.5 million were recognised during the three years ended 31 March 2015, 2016 and 2017, respectively. Please also refer to note 30 to the accountants’ report in Appendix I to this prospectus for more information of our Pre-IPO Share Option Scheme.

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Other expenses

Our other expenses primarily include foreign exchange losses, losses on the disposal of fixed assets and banking charges. Our losses on foreign exchange arose primarily from the effect of the general appreciation of JPY and USD against Renminbi for the years ended 31 March 2016 and 2017 on our bank loans denominated in USD and our overseas procurement from Tsugami Japan denominated in JPY, which were partially offset by the same appreciation effect on our overseas sales to the Tsugami Japan Group denominated in JPY. The following table sets out a breakdown of our other expenses for the periods indicated:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Loss on foreign exchange	–	15,987	2,061
Loss on disposal of property, plant and equipment	2,430	693	1,268
Banking charges	556	382	371
Others	112	16	95
Total:	3,098	17,078	3,795

Finance costs

Our finance costs represent our interest expenses on our bank loans and our Shareholder's loans from Tsugami Japan, and our expenses for discounting bank acceptance bills before their maturities. Our finance costs were approximately RMB21.0 million, RMB18.3 million and RMB13.1 million for the three years ended 31 March 2015, 2016 and 2017, respectively.

Income tax expenses

Income tax consists of current tax and deferred income tax by our Group. Current tax primarily comprises PRC corporate income tax payable by our PRC subsidiaries. Our income tax expenses for the three years ended 31 March 2015, 2016 and 2017 were approximately RMB75.0 million, RMB22.4 million and RMB47.4 million, respectively.

Under the relevant rules and regulations of the Cayman Islands, we are not subject to any income tax in the Cayman Islands. Under the Hong Kong law, Tsugami HK is subject to Hong Kong income tax at the statutory Hong Kong profit tax of 16.5%. We were not subject to any income tax in Hong Kong as we had no assessable profits derived from or earned in Hong Kong during the Track Record Period. Under the EIT Law, our subsidiaries in the PRC are subject to PRC income tax at the statutory PRC corporate income tax rate of 25.0%.

Please also refer to note 12 to our consolidated financial statements included in the accountants' report in Appendix I to this prospectus for a more detailed discussion on our income tax.

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 March 2017 compared with year ended 31 March 2016

Revenue

Our revenue increased by approximately 20.5% from approximately RMB1,357.5 million for the year ended 31 March 2016 to approximately RMB1,636.3 million for the year ended 31 March 2017, primarily due to our increased sales in the PRC as we continued to expand our business as a result of the general increase in demand for our CNC high precision machine tools from both of our new and existing customers in the PRC and the application uses of our CNC high precision machine tools, especially for the industries of IT and electronic products and automobile. The increase in our revenue for the year ended 31 March 2017 was also attributable to our release of certain models of CNC high precision machine tools and our increased sales of CNC high precision machine tools with various specifications and/or customisations that both had higher selling prices in general.

The increase in our revenue for the year ended 31 March 2017 was primarily attributable to the increase in the revenue of our precision automatic lathes from approximately RMB801.3 million for the year ended 31 March 2016 to approximately RMB1,047.9 million for the year ended 31 March 2017. Such increase in revenue was primarily due to the increases in their sales volume and average selling price from 3,039 units and approximately RMB263,700 per unit to 3,638 units and approximately RMB288,000 per unit for the same period, respectively. The increase in our revenue was also attributable to the increases in the revenue of our precision turret machines and precision grinding machines from approximately RMB235.5 million and RMB81.0 million for the year ended 31 March 2016, respectively, to approximately RMB290.1 million and RMB98.5 million for the year ended 31 March 2017, respectively. Such increases were primarily due to the increases in their sales volume and average selling prices from 943 units and approximately RMB249,700 per unit and 231 units and approximately RMB350,600 per unit, respectively, to 1,077 units and approximately RMB269,300 per unit and 247 units and approximately RMB398,600 per unit, respectively, for the same period, primarily as a result of our increased sales of such machine tools with various specifications and/or customisations which had higher selling prices in general.

The increase in our revenue was partially offset by the decrease in revenue of our precision machining centres from approximately RMB133.5 million for the year ended 31 March 2016 to approximately RMB120.8 million for the year ended 31 March 2017, primarily as a result of the decrease in the sales volume from approximately 539 units to 478 units for the same period. Such decrease was primarily due to the general decrease in demand of such machine tools for the IT and electronic product industry in the PRC.

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Cost of sales

Our cost of sales increased by approximately 18.0% from approximately RMB1,140.4 million for the year ended 31 March 2016 to approximately RMB1,345.1 million for the year ended 31 March 2017. The increase in our cost of sales was primarily attributable to the increase in our cost of parts and components by 17.6% from approximately RMB878.2 million for the year ended 31 March 2016 to approximately RMB1,032.8 million for the year ended 31 March 2017, which was primarily the result of our increased production volume of precision automatic lathes driven by our increased sales of such machine tools to our customers in the PRC. As a result, cost of sales for our precision automatic lathes increased from approximately RMB657.9 million to approximately RMB862.3 million for the same period. The increase in our cost of sales for the year ended 31 March 2017 was also attributable to the increases in both of our production overhead and direct labour costs from approximately RMB189.5 million and RMB72.7 million for the year ended 31 March 2016, respectively, to approximately RMB228.8 million and RMB83.5 million for the year ended 31 March 2017, respectively. The increase in our production overhead was primarily due to the increase in our Trademarks and Technology license fees paid to Tsugami Japan as a result of our increased sales. The increase in our direct labour costs was primarily due to the increase in our production staff and costs as a result of our increased production volume and the general increase in salaries and benefits of our production staff.

Gross profit and gross profit margin

Our overall gross profit increased by approximately 34.1% from approximately RMB217.1 million for the year ended 31 March 2016 to approximately RMB291.2 million for the year ended 31 March 2017, while our overall gross profit margin also increased from approximately 16.0% to approximately 17.8% for the same period. The increase in our gross profit was primarily due to our increased sales in the PRC as we continued to expand our business as a result of the general increase in demand for our CNC high precision machine tools from both of our new and existing customers in the PRC and the application uses of our CNC high precision machine tools. The increase in our overall gross profit margin was primarily due to the increases in gross profit margins of certain of our CNC high precision machine tools sold in the PRC with various customisations and/or specifications that had higher gross profit margins in general to end customers engaged in the automobile industry. The increase in our overall gross profit margin was also attributable to the general economies of scale resulting from the increase in our production volume for the year ended 31 March 2017 and our ability to better control our production costs due to our customisation and development capabilities to develop and manufacture certain principal parts and components and our increased domestic procurement instead of overseas procurement at relatively competitive pricing. Further, the increases in our overall gross profit and gross profit margin were also attributable to us commencing to sell our CNC high precision machine tools with various customisations and/or specifications to the Taiwan market since June 2016, which generally had higher gross profit margins.

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Gross profit of our precision automatic lathes increased from approximately RMB143.4 million for the year ended 31 March 2016 to approximately RMB185.6 million for the year ended 31 March 2017, while gross profit margin of our precision automatic lathes slightly decreased from approximately 17.9% to approximately 17.7% for the same period. Such decrease in gross profit margin of our precision automatic lathes was primarily the result of the general increase in our cost of parts and components purchased for our precision automatic lathes from overseas primarily due to the general appreciation of JPY against Renminbi, which also partially contributed to a decrease in gross profit margin of our sales to distributors from approximately 25.8% to approximately 23.4% for the same period.

Gross profit of our precision turret machines and our precision grinding machines both increased from approximately RMB16.9 million and RMB26.5 million for the year ended 31 March 2016, respectively, to approximately RMB36.2 million and RMB34.5 million for the year ended 31 March 2017, respectively. Gross profit margins of such machine tools also increased from approximately 7.2% and 32.7% for the year ended 31 March 2016, respectively, to approximately 12.5% and 35.0% for the year ended 31 March 2017, respectively. Such increases were primarily due to the increases in demand for and our sales of such machine tools in the PRC with various customisations and/or specifications that had higher gross profit margins in general to end customers, in particular, engaged in the automobile industry.

Our overall gross profit and gross profit margin were partially offset by the decreases in gross profit and gross profit margin of our precision thread and form rolling machines from approximately RMB2.6 million and 25.3% for the year ended 31 March 2016 to approximately RMB1.4 million and 12.2% for the year ended 31 March 2017. As we do not mass produce precision thread and form rolling machines, the gross profit and gross profit margin of such machine tools largely depend on the specifications and/or customisations required by our customers on such machine tools. For the year ended 31 March 2017, we sold most of our precision thread and form rolling machines to the Tsugami Japan Group with the standard specifications and/or customisations that generally had lower selling prices and gross profit margin as we were not responsible for the sales and marketing, aftersales services and technical support for these machine tools sold to the Tsugami Japan Group.

In addition, our overall gross profit margin was also partially affected by the increase in gross profit margin of others, which primarily including our sales of accessory parts and components to our customers and/or end customers, from approximately 17.5% for the year ended 31 March 2016 to approximately 34.8% for the year ended 31 March 2017. These accessory parts and components are typically replacement of the parts and components consumed during the uses of our CNC high precision machine tools or specifically produced with customisations tailored to the new requirements and/or needs of our customers, and we do not mass produce these accessory parts and components. Hence, the selling prices and gross profit margins of these accessory parts and components varied during the Track Record Period.

Other income and gains

Our other income and gains decreased by approximately 66.8% from approximately RMB11.9 million for the year ended 31 March 2016 to approximately RMB4.0 million for the year ended 31 March 2017. Such decrease was primarily attributable to the decreases in our

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gains on disposal of obsolete production machinery and equipment and government grants from approximately RMB0.2 million and RMB10.8 million for the year ended 31 March 2016, respectively, to approximately RMB0.1 million and RMB3.1 million for the year ended 31 March 2017, respectively.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 12.7% from approximately RMB68.2 million for the year ended 31 March 2016 to approximately RMB76.8 million for the year ended 31 March 2017, primarily as a result of the increase in the accruals of our future product warranty expenses from approximately RMB2.1 million to approximately RMB10.7 million for the same period. Such increase was primarily attributable to the increase in our sales orders in the PRC for the year ended 31 March 2017 as we continued to expand our sales network and the application uses of our CNC high precision machine tools. The increase in our selling and distribution expenses was partially offset by the decrease in our transportation and insurance costs from approximately RMB19.1 million for the year ended 31 March 2016 to approximately RMB18.6 million for the year ended 31 March 2017, primarily due to the price adjustment of certain third-party logistics company engaged by us as a result of our increased sales and more competitive market environment.

Administrative expenses

Our administrative expenses decreased by approximately 12.1% from approximately RMB47.2 million for the year ended 31 March 2016 to approximately RMB41.5 million for the year ended 31 March 2017, primarily due to the decrease in our customisation and development expenses from approximately RMB8.1 million to approximately RMB4.7 million for the same period as we had put more efforts on customisation and development for the year ended 31 March 2016 to develop and upgrade the models of our precision turret machines and precision machining centres. The decrease in our administrative expenses was also attributable to the decrease in our staff salaries and benefits from approximately RMB19.8 million to approximately RMB15.2 million for the same period, primarily due to the decrease in our share-based payment by virtue of the Pre-IPO Share Options for the year ended 31 March 2017.

Other expenses

Our other expenses decreased by approximately 77.8% from approximately RMB17.1 million for the year ended 31 March 2016 to approximately RMB3.8 million for the year ended 31 March 2017, primarily due to the decrease in our foreign exchange losses from approximately RMB16.0 million to approximately RMB2.1 million for the same period. Such decrease was primarily the result of (i) the effect of the general appreciation of JPY and USD against Renminbi on our repayment of short-term bank borrowings denominated in USD and our procurement from Tsugami Japan denominated in JPY, which were partially offset by the same appreciation effect on our sales to the Tsugami Japan Group denominated in JPY; and (ii) our reduction of foreign exchange exposure as we started to settle part of our sales to the Tsugami Japan Group and part of our procurement from Tsugami Japan in Renminbi instead of JPY since May 2016.

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Finance costs

Our finance costs decreased by approximately 28.7% from approximately RMB18.3 million for the year ended 31 March 2016 to approximately RMB13.1 million for the year ended 31 March 2017, primarily due to the decreases in interests on our bank loans and discounting bills from approximately RMB14.4 million and RMB3.9 million to approximately RMB11.4 million and RMB1.6 million for the same period, respectively.

Income tax expenses

Our income tax increased by approximately 111.4% from approximately RMB22.4 million for the year ended 31 March 2016 to approximately RMB47.4 million for the year ended 31 March 2017, primarily due to our increased profit before tax as a result of the combining effect of (i) our increased sales in the PRC for the year ended 31 March 2017 as we continued to expand our sales network and the application uses of our CNC high precision machine tools; and (ii) decreases in our expenses, such as administrative expenses, other expenses and finance costs. Our effective tax rate increased from approximately 28.7% for the year ended 31 March 2016 to approximately 29.6% for the year ended 31 March 2017, primarily due to our listing expenses incurred for the year ended 31 March 2017, that were non-deductible from our taxable profit.

Profit for the year

As a result of the factors described above, our profit for the year increased by approximately 101.7% from approximately RMB55.8 million for the year ended 31 March 2016 to approximately RMB112.6 million for the year ended 31 March 2017.

Year ended 31 March 2016 compared with year ended 31 March 2015

Revenue

Our revenue decreased by approximately 34.0% from approximately RMB2,057.7 million for the year ended 31 March 2015 to approximately RMB1,357.5 million for the year ended 31 March 2016, primarily as a result of the decrease in revenue of our precision automatic lathes and precision machining centres from approximately RMB1,430.7 million and RMB243.5 million for the year ended 31 March 2015, respectively, to approximately RMB801.3 million and RMB133.5 million for the year ended 31 March 2016, respectively. Such decreases in revenue were primarily due to the decreases in the sales volume of our precision automatic lathes and precision machining centres from 4,611 and 1,066 units for the year ended 31 March 2015, respectively, to 3,039 and 539 units for the year ended 31 March 2016, respectively. The decrease in our sales of precision automatic lathes was primarily due to our decreased sales to the Relevant Manufacturers for the year ended 31 March 2016. As we provided certain CNC high precision machine tools to the Relevant Manufacturers during the Track Record Period, we completed a large amount of sales orders of our precision automatic lathes for the Relevant Manufacturers for the year ended 31 March 2015 and hence, recorded higher revenue for the

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same period. The decrease in revenue of our precision automatic lathes for the year ended 31 March 2016 was also attributable to the decrease in their average selling price from approximately RMB310,300 per unit for the year ended 31 March 2015 to approximately RMB263,700 per unit for the year ended 31 March 2016, also primarily as a result of our decreased sales of such machine tools with various specifications and/or customisations that had higher selling prices in general to the Relevant Manufacturers. The decrease in sales of our precision machining centers was primarily due to our decreased sales in the PRC as a result of the decreasing demand of such machine tools from end customers primarily engaged in the IT and electronic product industry and the general slowdown in the growth of the PRC economy. The decrease in revenue of our precision machining centres, however, was partially offset by the increase in their average selling price from approximately RMB228,400 per unit for the year ended 31 March 2015 to approximately RMB247,600 per unit for the year ended 31 March 2016, primarily due to our increased sales of certain models of precision machining centres with various specifications and/or customisations that had higher selling prices in general.

The decrease in our revenue for the year ended 31 March 2016 was also attributable to the decrease in revenue of our precision turret machines from approximately RMB260.5 million for the year ended 31 March 2015 to approximately RMB235.5 million for the year ended 31 March 2016. Such decrease was primarily due to the decrease in their average selling price from approximately RMB278,300 per unit for the year ended 31 March 2015 to approximately RMB249,700 per unit for the year ended 31 March 2016, primarily the result of the general increase in competition for the manufacturers of precision turret machines in the PRC. Nevertheless, the sales volume of our precision turret machines increased from 936 units for the year ended 31 March 2015 to 943 units for the year ended 31 March 2016. Revenue of our precision thread and from rolling machines also slightly decreased from approximately RMB10.4 million for the year ended 31 March 2015 to approximately RMB10.1 million for the year ended 31 March 2016, primarily due to the decrease in their average selling price from approximately RMB298,100 per unit for the year ended 31 March 2015 to approximately RMB287,800 per unit for the year ended 31 March 2016.

The decrease in our revenue for the year ended 31 March 2016 was slightly offset by the increase in revenue of our precision grinding machines from approximately RMB73.4 million for the year ended 31 March 2015 to approximately RMB81.0 million for the year ended 31 March 2016. Such increase was primarily due to the increase in their average selling price from approximately RMB321,900 per unit for the year ended 31 March 2015 to approximately RMB350,600 per unit for the year ended 31 March 2016, primarily as a result of our increased sales of certain models of precision grinding machines with various specifications and/or customisations.

Cost of sales

Our cost of sales decreased by approximately 30.9% from approximately RMB1,649.7 million for the year ended 31 March 2015 to approximately RMB1,140.4 million for the year ended 31 March 2016. The decrease in our cost of sales was primarily attributable to the decrease in our cost of parts and components by 32.3% from approximately RMB1,297.2

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million for the year ended 31 March 2015 to approximately RMB878.2 million for the year ended 31 March 2016, which was primarily the result of our decreased production volume of precision automatic lathes driven by our decreased sales of such machine tools to the Relevant Manufacturers, and to a lesser extent, the decreased production volume of precision machining centres driven by our decreased sales in the PRC, primarily the result of the decreasing demand of such machine tools for the IT and electronic product industry and the general slowdown of the PRC economy. As a result, cost of sales for our precision automatic lathes and precision machining centres both decreased from approximately RMB1,100.8 million and RMB228.7 million for the year ended 31 March 2015, respectively, to approximately RMB657.9 million and RMB122.6 million for the year ended 31 March 2016, respectively. The decrease in our cost of parts and components was also attributable to our continuously efforts in strengthening our customisation and development capabilities to develop and manufacture certain Tsugami Japan Components, such as spindles and developing business relationship with domestic suppliers to reduce our overseas procurement from Tsugami Japan.

The decrease in our cost of sales for the year ended 31 March 2016 was also attributable to the decreases in our production overhead and direct labour costs from approximately RMB275.8 million and RMB76.8 million for the year ended 31 March 2015, respectively, to approximately RMB189.5 million and RMB72.7 million for the year ended 31 March 2016, respectively. The decrease in our production overhead was primarily due to the decrease in our Technology license fees paid to Tsugami Japan as a result of our decreased sales. The decrease in our direct labour costs was primarily due to the decrease in our production staff and costs of overtime paid as a result of our decreased production volume.

Gross profit and gross profit margin

Our overall gross profit decreased by approximately 46.8% from approximately RMB408.0 million for the year ended 31 March 2015 to approximately RMB217.1 million for the year ended 31 March 2016, while our overall gross profit margin also decreased from approximately 19.8% to approximately 16.0% for the same periods. The decreases in our gross profit and gross profit margin were primarily due to our decreased sales of precision automatic lathes with various specifications and/or customisations to the Relevant Manufacturers for the year ended 31 March 2016. The decrease of our gross profit margin was also attributable to some of our production overhead costs, which were fixed costs and were relatively less sensitive to our decreased sales for the year ended 31 March 2016.

Gross profit and gross profit margin of our precision automatic lathes decreased from approximately RMB329.9 million and 23.1% for the year ended 31 March 2015, respectively, to approximately RMB143.4 million and 17.9% for the year ended 31 March 2016, respectively. The decreases in our gross profit and gross profit margin of our precision automatic lathes were primarily due to our decreased sales of precision automatic lathes with various specifications and/or customisations to the Relevant Manufacturers. Nevertheless, the decrease in gross profit of our precision automatic lathes was partially offset by our increased sales of certain of our precision automatic lathes with various customisations and/or specifications that had higher gross profit margin in general to end customers engaged in the

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automobile industry, which also partially contributed to an increase in our gross profit margin of our sales to distributors from approximately 22.5% to 25.8% for the same period. The decrease in gross profit of our precision automatic lathes was also partially offset by the decrease in our costs of parts and components as we have been continuously strengthening our customisation and develop capabilities to develop and manufacture certain Tsugami Japan Components and developing business relationship with domestic suppliers to increase our domestic procurement and reduce our overseas procurement from Tsugami Japan.

Gross profit and gross profit margin of our precision turret machines also decreased from approximately RMB26.7 million and 10.2% for the year ended 31 March 2015, respectively, to approximately RMB16.9 million and 7.2% for the year ended 31 March 2016, respectively. Such decreases were primarily due to (i) our increased sales of such machine tools without specifications and/or customisations that had lower gross profit margin in general; and (ii) the decrease in their average selling price, primarily as a result of the expansion of production capacities by leading manufacturers of such machine tools in the PRC.

While our gross profit decreased for our precision machining centres from approximately RMB14.8 million for the year ended 31 March 2015 to approximately RMB10.9 million for the year ended 31 March 2016, our gross profit margin for such machines tools increased from approximately 6.1% to approximately 8.2% for the same periods. The decrease in gross profit of our precision machining centers was primarily due to our decreased sales of such machines tools in the PRC as a result of the decreasing demand of such machine tools for the IT and electronic product industry and the general slowdown in the growth of the PRC economy. The increase in gross profit margin of our precision machining centres, which also partially contributed to an increase in gross profit margin of our sales to distributors from approximately 22.5% to 25.8% for the same period, was primarily due to our decreased sales of certain old models of our precision machining centres with lower selling prices and gross profit margin in general.

The decreases in our overall gross profit and gross profit margin for the year ended 31 March 2016 were also attributable to the decreases in gross profit and gross profit margin of our precision thread and form rolling machines from approximately RMB4.1 million and 39.0% for the year ended 31 March 2015, respectively, to approximately RMB2.6 million and 25.3% for the year ended 31 March 2016, respectively. Such decreases were primarily due to our decreased sales of such machine tools in the PRC with various specifications and/or customisations that had higher selling prices and gross profit margin in general, and our increased sales of such machine tools to the Tsugami Japan Group with the standard specifications and/or customisations that generally had lower selling prices and gross profit margin as we were not responsible for the sales and marketing, aftersales services and technical support for these machine tools sold to the Tsugami Japan Group.

The decreases in our overall gross profit and gross profit margin were also partially offset by the increases in gross profit and gross profit margin of our precision grinding machines from approximately RMB20.3 million and 27.7% for the year ended 31 March 2015, respectively, to approximately RMB26.5 million and 32.7% for the year ended 31 March 2016, respectively. Such increases were primarily due to our increased sales of certain models of precision grinding machines with various specifications and/or customisations, which had higher selling prices and gross profit margin in general.

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In addition, our overall gross profit margin was also partially affected by the decrease in gross profit margin of others, which primarily including our sales of accessory parts and components to our customers and/or end customers, from approximately 31.1% for the year ended 31 March 2015 to approximately 17.5% for the year ended 31 March 2016. These accessory parts and components are typically replacement of the parts and components consumed during the uses of our CNC high precision machine tools or specifically produced with customisations tailored to the new requirements and/or needs of our customers, and we do not mass produce these accessory parts and components. Hence, the selling prices and gross profit margins of these accessory parts and components varied during the Track Record Period.

Other income and gains

Our other income and gains decreased by approximately 36.4% from approximately RMB18.7 million for the year ended 31 March 2015 to approximately RMB11.9 million for the year ended 31 March 2016. Such decrease was primarily attributable to the decrease in our gain on foreign exchange from approximately RMB15.6 million to nil for the same periods. The decrease in our other income and gains was partially offset by the increase in our government grants received from approximately RMB2.0 million for the year ended 31 March 2015 to approximately RMB10.8 million for the year ended 31 March 2016, primarily due to our tax subsidy received from the local government in 2016 in relation to our tax paid in 2014.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 22.8% from approximately RMB88.4 million for the year ended 31 March 2015 to approximately RMB68.2 million for the year ended 31 March 2016, primarily due to the decrease in the accruals of our future product warranty expenses from approximately RMB20.5 million for the year ended 31 March 2015 to approximately RMB2.1 million for the year ended 31 March 2016. Such decrease was primarily attributable to our decreased sales to the Relevant Manufacturers. The decrease in our selling and distribution expenses was partially offset by the increase in our salaries and staff benefits from approximately RMB31.5 million for the year ended 31 March 2015 to approximately RMB33.1 million for the year ended 31 March 2016, primarily as a result of the general increase in salaries and staff benefits for our sales personnel.

Administrative expenses

Our administrative expenses decreased by approximately 22.6% from approximately RMB61.0 million for the year ended 31 March 2015 to approximately RMB47.2 million for the year ended 31 March 2016, primarily due to the decrease in our staff salaries and benefits from approximately RMB25.8 million to approximately RMB19.8 million as a result of the decrease in our share-based payment by virtue of the Pre-IPO Share Options, and the decrease in our listing expenses incurred from approximately RMB13.8 million to approximately RMB6.1 million for the same periods. The decrease in our administrative expenses was also attributable to the decrease in our customisation and development expenses from approximately RMB10.3 million for the year ended 31 March 2015 to approximately RMB8.1 million for the year ended 31 March 2016.

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Other expenses

Our other expenses increased by approximately 451.3% from approximately RMB3.1 million for the year ended 31 March 2015 to approximately RMB17.1 million for the year ended 31 March 2016, primarily due to the increases in our foreign exchange losses of approximately RMB16.0 million for the year ended 31 March 2016. Such increase in our losses on foreign exchange was primarily due to the effect of the general appreciation of JPY and USD against Renminbi on our repayment of short-term bank borrowings denominated in USD and our procurement from Tsugami Japan denominated in JPY, which were partially offset by the same appreciation effect on our sales to the Tsugami Japan Group denominated in JPY.

Finance costs

Our finance costs decreased by approximately 12.6% from approximately RMB21.0 million for the year ended 31 March 2015 to approximately RMB18.3 million for the year ended 31 March 2016, primarily due to the decrease in interest on our Shareholder's loans from approximately RMB4.2 million to nil for the same periods.

Income tax expenses

Our income tax decreased by approximately 70.1% from approximately RMB75.0 million for the year ended 31 March 2015 to approximately RMB22.4 million for the year ended 31 March 2016, primarily due to the decrease in our revenue for the year ended 31 March 2016 as result of our decreased sales to the Relevant Manufacturers. The decrease in our income tax was also attributable to the decreases in expenses not deductible for tax and the effect of withholding tax from approximately RMB5.9 million and RMB5.4 million for the year ended 31 March 2015, respectively, to approximately RMB1.2 million and RMB1.3 million for the year ended 31 March 2016, respectively. The decrease in expenses not deductible for tax was primarily due to the decrease in our listing expenses incurred for the year ended 31 March 2016, which were not deductible from our taxable profit. The decrease in our withholding tax was primarily the result of the decrease in our distributable profit for the year ended 31 March 2016. Our effective tax rate slightly decreased from 29.6% for the year ended 31 March 2015 to approximately 28.7% for the year ended 31 March 2016.

Profit for the year

As a result of the factors described above, our profit for the year decreased by approximately 68.7% from approximately RMB178.3 million for the year ended 31 March 2015 to approximately RMB55.8 million for the year ended 31 March 2016.

LIQUIDITY AND CAPITAL RESOURCES

We require a substantial amount of capital to fund our working capital requirements, purchases of property, plant and equipment and business expansion. Our operation and growth have primarily been financed by cash generated from our operations, bank loans and borrowings from Tsugami Japan.

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Cash flows

As at 31 March 2015, 2016 and 2017, we had cash and cash equivalents of RMB89.1 million, RMB96.1 million and RMB123.9 million, respectively. The following table sets out our cash flows for the periods indicated:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net cash flows generated from operating activities	375,183	49,694	182,900
Net cash flows used in investing activities	(65,099)	(22,941)	(10,096)
Net cash flows used in financing activities	(320,880)	(19,751)	(144,994)
Net increase/(decrease) in cash and cash equivalents	(10,796)	7,002	27,810
Cash and cash equivalents at beginning of year	99,887	89,091	96,093
Cash and cash equivalents at end of year	89,091	96,093	123,903

Cash flows generated from operating activities

We derive our cash inflow from operating activities principally from the receipt of payments for the sales of our CNC high precision machine tools. Our cash outflow from operating activities is principally for our purchases of parts and components used for the manufacture of our CNC high precision machine tools.

For the year ended 31 March 2017, we had net cash from operating activities of approximately RMB182.9 million, which was primarily contributed by an increase in trade and bills payables of approximately RMB234.4 million and our profit before tax of approximately RMB159.9 million. These cash inflow was partially offset by an increase in trade and bills receivables of approximately RMB273.2 million. The increases in our trade and bills payables was primarily due to our increased purchases of parts and components as a result of our increased sales. The increase in our trade and bills receivables was also primarily due to our increased sales orders received for the year ended 31 March 2017.

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For the year ended 31 March 2016, we had net cash from operating activities of approximately RMB49.7 million, which was primarily contributed by a decrease in inventory of approximately RMB212.4 million and our profit before tax of approximately RMB78.2 million. These cash inflow was partially offset by a decrease in trade and bills payables of approximately RMB190.2 million and a decrease in other payables and accruals of approximately RMB111.5 million. The decreases in our inventory and trade and bills payables were primarily due to our decreased purchases of parts and components as a result of our decreased production volume driven by our decreased sales to the Relevant Manufacturers and our increased purchases from domestic suppliers at relatively competitive pricing instead of from Tsugami Japan. The decrease in other payables and accruals was primarily due to the decrease in advances received from the Tsugami Japan Group as prepayment for their purchases from us. For more details of our credit period to the Tsugami Japan Group, please refer to the section headed “Business – Sales – Credit period and payment” in this prospectus.

For the year ended 31 March 2015, we had net cash from operating activities of approximately RMB375.2 million, which was primarily contributed by our profit before tax of approximately RMB253.3 million, an increase in other payables and accruals of approximately RMB131.2 million, a decrease in trade and bills receivables of approximately RMB43.2 million and a decrease in inventories of approximately RMB36.4 million. These cash inflow was partially offset by a decrease in trade and bills payables of approximately RMB118.8 million. The increase in our other payables and accruals was primarily due to the advances received from the Tsugami Japan Group as prepayment for their purchases from us. For more details of our credit period to the Tsugami Japan Group, please refer to the section headed “Business – Sales – Credit period and payment” in this prospectus. The decrease in our trade and bills receivables was primarily due to the settlement of the receivables by the Relevant Manufacturers and our other customers. The decreases in our inventories and trade payables were primarily due to our consumption and payment to our suppliers for the purchases of parts and components for the manufacture of our CNC high precision machine tools.

Cash flows used in investing activities

Our cash outflow for investing activities primarily consisted of payment or prepayment for the purchases of property, plant and equipment and payment for the purchases of prepaid land lease. Our cash inflow for investing activities primarily consisted of interest received from our cash at our bank and proceeds received from the disposal of property, plant and equipment.

For the year ended 31 March 2017, our net cash used in investing activities amounted to approximately RMB10.1 million, which was primarily due to our purchases of new production machinery and equipment of approximately RMB9.8 million for the continuous expansion of our production facilities and capacities for our Pinghu Production Plants.

For the year ended 31 March 2016, our net cash used in investing activities amounted to approximately RMB22.9 million, which was primarily due to our purchases of new production machinery and equipment of approximately RMB23.6 million for the continuous expansion of our production facilities and capacities for our Pinghu Production Plants. These cash outflow was partially offset by the proceeds received from the disposal of our obsolete production machinery and equipment of approximately RMB1.1 million.

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For the year ended 31 March 2015, our net cash used in investing activities amounted to RMB65.1 million, which was primarily due to our purchases of new production machinery and equipment of approximately RMB51.5 million for the continuous expansion of our production facilities and capacities for our Pinghu Production Plants, and our payment for the purchase of prepaid land lease of approximately RMB21.7 million for a new piece of land purchased in May 2014 where our production plant four is currently located. These cash outflow was partially offset by the proceeds received from the disposal of our obsolete production machinery and equipment of approximately RMB7.2 million.

Cash flows used in financing activities

Our cash inflow for financing activities primarily consisted of new bank borrowings. Our cash outflow for financing activities primarily consisted of repayment of bank loans and other borrowings and interests and payment of dividends.

For the year ended 31 March 2017, our net cash used in financing activities amounted to approximately RMB145.0 million, primarily due to our repayment of our bank loans and other borrowings of approximately RMB225.1 million. These cash outflow was partially offset by our new bank loans of approximately RMB122.0 million for general working capital purposes.

For the year ended 31 March 2016, our net cash used in financing activities amounted to approximately RMB19.8 million, primarily due to our repayment of our bank loans and other borrowings of approximately RMB982.4 million. These cash outflow was partially offset by our new bank loans of approximately RMB996.4 million for general working capital purposes.

For the year ended 31 March 2015, our net cash used in financing activities amounted to approximately RMB320.9 million, primarily due to our repayment of our Shareholder's loans, bank loans and related interests of approximately RMB828.5 million. These cash outflow was partially offset by our new bank loans of approximately RMB503.5 million for our settlement of payment for the new piece of land we purchased in May 2014 for our production plant four and general working capital purposes.

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Current assets and liabilities

The following table sets out details of our current assets and liabilities as at the dates indicated:

	As at 31 March			As at 31 July
	2015	2016	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>
Current assets				
Inventories	720,581	508,136	479,875	490,033
Trade and bills receivables	125,583	114,050	387,295	450,144
– Tsugami Japan Group	16	33,697	57,560	72,829
Prepayments, deposits and other receivables	21,749	9,950	15,491	16,181
Pledged deposits	–	–	6,930	10,908
Cash and cash equivalents	89,091	96,093	123,903	150,980
	<u>957,004</u>	<u>728,229</u>	<u>1,013,494</u>	<u>1,118,246</u>
Current liabilities				
Trade and bills payables	314,052	123,854	358,277	404,981
– Tsugami Japan Group	162,637	46,786	87,248	49,873
Other payables and accruals	167,995	56,497	83,347	88,908
– Advances from Tsugami Japan Group	105,620	–	–	–
Tax payable	6,762	8,766	18,713	6,112
Interest-bearing bank loans and other borrowings	363,770	379,829	274,529	267,289
Provision	13,654	8,111	8,483	9,455
	<u>866,233</u>	<u>577,057</u>	<u>743,349</u>	<u>776,745</u>
Net current assets	<u>90,771</u>	<u>151,172</u>	<u>270,145</u>	<u>341,501</u>

As at 31 March 2015, 2016 and 2017, we had net current assets of approximately RMB90.8 million, RMB151.2 million and RMB270.1 million, respectively.

We had net current assets of approximately RMB90.8 million as at 31 March 2015. This improvement was primarily due to the decrease in our bank loans and other borrowings of approximately RMB330.6 million, primarily as a result of our repayment of Shareholder’s loan of approximately RMB313.8 million for the year ended 31 March 2015. Such decrease was partially offset by the increase in our other payables and accruals of approximately RMB131.2 million, primarily as a result of (i) the increase in advances received from the Tsugami Japan Group as prepayment for their purchases from us; and (ii) the increase in product warranties as our sales increased for the year ended 31 March 2015. For more details of our credit period to the Tsugami Japan Group, please refer to the section headed “Business – Sales – Credit period and payment” in this prospectus.

We had net current assets of approximately RMB151.2 million as at 31 March 2016. This improvement was primarily due to (i) the decrease in trade and bills payables of approximately RMB190.2 million, primarily as a result of our decreased purchases of parts and components as our sales decreased for the year ended 31 March 2016; and (ii) the decrease in other payables and accruals of approximately RMB111.5 million, primarily as a result of the decrease in

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product warranties as our sales decreased for the year ended 31 March 2016 and the decrease in advances received from the Tsugami Japan Group as prepayment for their purchases from us. For more details of our credit period to the Tsugami Japan Group, please refer to the section headed “Business – Sales – Credit period and payment” in this prospectus. Such improvement was partially offset by the decrease in our inventories of approximately RMB212.4 million, primarily as a result of our decreased purchases of parts and components as a result of our decreased production volume driven by our decreased sales to the Relevant Manufacturers and our increased purchases from domestic suppliers at relatively competitive pricing instead of from Tsugami Japan.

We had net current assets of approximately RMB270.1 million as at 31 March 2017. This continuous improvement was primarily due to (i) the increase in our trade and bills receivables of approximately RMB273.2 million, primarily as a result of our increased sales in the PRC; (ii) the decrease in our bank loans and other borrowings of approximately RMB105.3 million, primarily as a result of the repayment of our bank loans. Such improvement was partially offset by the increase in our trade and bills payables of approximately RMB234.4 million, primarily as a result of our increased purchases of parts and components as a result of our increased sales in the PRC.

As at 31 July 2017, being the latest practicable date for ascertaining certain financial information of our Group, we had net current assets of approximately RMB341.5 million based on our unaudited consolidated management account. The continuous improvement in our net current assets was primarily due to the increase in our trade and bills receivables of approximately RMB62.8 million as a result of the continuous increase in our sales in the PRC. Such improvement was partially offset by the increase in our trade and bills payables of approximately RMB46.7 million.

Working capital

As at 31 July 2017, being the latest practicable date for the purpose of indebtedness statement in this prospectus, our bank loans, which were all unsecured, amounted to approximately RMB257.0 million, which were primarily used to support our general working capital as our business continues to grow and purchases of new production machinery and equipment. As at 31 July 2017, we had unutilised banking facilities of approximately RMB426.9 million with no restriction on their drawdown. Our Directors believe that after taking into consideration the financial resources available to us, including cash flows from our operations, banking facilities and estimated net proceeds from the Global Offering, we will be able to service our indebtedness and will have sufficient working capital for at least 12 months commencing from the date of this prospectus.

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CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

Our inventories primarily consist of parts and components, work in progress and finished goods. The following table sets out the breakdown of our inventories as at the dates indicated:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Raw materials	326,045	215,912	193,205
Work in progress	205,550	144,266	164,687
Finished goods.	188,986	147,958	121,983
Total:	720,581	508,136	479,875

Our inventories decreased by 29.5% from approximately RMB720.6 million as at 31 March 2015 to approximately RMB508.1 million as at 31 March 2016. Such decrease was primarily due to the general decrease in our production volume as a result of our decreased sales for the year ended 31 March 2016. The decrease can also be attributable to the decrease in our cost of parts and components as a result of our decreased procurement from Tsugami Japan. With our increased in-house customisation and development capabilities, we have started to develop and manufacture certain principal parts and components and reduced our overseas procurement from Tsugami Japan. We have also established stable and good relationship with domestic suppliers and gradually increased our domestic procurement at relatively competitive pricing.

Our inventory further decreased by 5.6% to approximately RMB479.9 million as at 31 March 2017. Such decrease was primarily due to the consumption of our parts and components and the completion and delivery of our CNC high precision machine tools by 31 March 2017 to meet the production needs for our increased sales for the year ended 31 March 2017.

We seek to maintain sufficient level of our inventory. We have employed a centrally-administered ERP system which enables us to track and systematically manage our inventories. In order to ensure the sufficiency of our production capacities and timely delivery of products, we generally maintain an inventory level of certain principal parts and components procured from overseas, such as CNC system panels, for around three to six months based on our production plans. We also maintain certain units of standardised machine tools so that we will be able to reduce our manufacturing lead time and make specifications and/or customisations to our standardised machine tools to fulfil the urgent or large sales orders by our customers. Further, our management reviews the inventory ageing list on a periodic basis for those aged inventories. The purpose is to ascertain whether impairment is required to be made in the financial statements for any obsolete and slow moving items. Although we do not have a

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general impairment policy for our inventories, we typically consider the market response and acceptance of our models of CNC high precision machine tools and make assessments on provisions on a case-by-case basis.

As at 31 July 2017, approximately RMB374.0 million or 77.9% of our inventories as at 31 March 2017 had been sold or utilised.

The following table sets out our average inventory turnover days for the periods indicated:

	Year ended 31 March		
	2015	2016	2017
Average inventory turnover days ⁽¹⁾	163	197	134

Note:

1. Average inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant financial year divided by cost of sales of the relevant financial year and multiplied by 365 days.

The average inventory turnover days increased from approximately 163 days for the year ended 31 March 2015 to approximately 197 days for the year ended 31 March 2016, primarily due to the decrease in our cost of sales for the year ended 31 March 2016, primarily driven by the decreases in our costs of parts and components and production overhead. The decrease in our cost of parts and components was primarily due to our decreased production volume as a result of our decreased sales to the Relevant Manufacturers for the year ended 31 March 2016. The decrease in our production overheads was primarily due to the decrease in our Trademarks and Technology license fees paid to Tsugami Japan as a result of our decreased sales for the year ended 31 March 2016. The average inventory turnover days decreased to approximately 134 days for the year ended 31 March 2017. Such decrease was primarily due to the consumption of our parts and components and the completion and delivery of our CNC high precision machine tools by 31 March 2017 to meet the production needs for our increased sales for the year ended 31 March 2017.

We had relatively higher average inventory turnover days during the Track Record Period, which were primarily attributable to the inventory level we typically maintain for our certain principal parts and components procured from overseas for around three to six months based on our production plans. In addition, we also maintain certain units of standardised machine tools so that we will be able to reduce our manufacturing lead time and make specifications and/or customisations to our standardised machine tools to fulfil the urgent or large sales orders received from our customers.

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The following table sets out the aging analysis of our inventories as at the dates indicated:

Aging of inventories	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
0 – 179 days	544,552	267,163	361,313
180 days – 359 days	71,271	139,499	39,098
Over 360 days	104,758	101,474	79,464
	<u>720,581</u>	<u>508,136</u>	<u>479,875</u>

The following table sets out the provision movement of our inventories as at the dates indicated:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the financial year . .	6,556	7,848	6,609
Additional provision	6,446	430	3,032
Utilised or scrapped.	(5,154)	(1,669)	(2,751)
At the end of the financial year	<u>7,848</u>	<u>6,609</u>	<u>6,890</u>

Trade and bills receivables

Our trade and bills receivables primarily relate to receivables for our CNC high precision machine tools sold to of our customers. We generally do not grant credit period to our customers, except for a few major customers that we grant a credit period ranging from 45 to 180 days from the billing date, based on their background and operational scale, financial condition, long term and stable business relationship with us and historical payment record. Further, for the majority of our customers, we typically require them to pay us an initial deposit of 10% of their total purchase amount for each sales order and pay the rest of the purchase amount to us in full prior to our delivery. We also allow our customers in the PRC to use bank acceptance bills, with maturities of no more than 180 days, to settle their payments. For our sales to the Tsugami Japan Group, we generally grant them a credit period up to 60 days. For more details of our credit period to our customers and the Tsugami Japan Group, please refer to the section headed “Business – Sales – Credit period and payment” in this prospectus.

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The following table sets out a summary of our trade and bills receivables as at the dates indicated:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables	91,046	79,632	190,542
– Tsugami Japan Group	16	33,697	57,560
Bills receivables	34,537	34,418	196,753
	125,583	114,050	387,295

Our trade receivables decreased from approximately RMB91.0 million as at 31 March 2015 to approximately RMB79.6 million as at 31 March 2016, primarily due to our decreased sales to the Relevant Manufacturers for the year ended 31 March 2016. Our trade receivables increased to approximately RMB190.5 million as at 31 March 2017, primarily as a result of our increased sales in the PRC to certain of our major customers that were granted credit period for the year ended 31 March 2017.

Our bills receivables was relatively stable as at 31 March 2016 of approximately RMB34.4 million as compared to the same as at 31 March 2015 of approximately RMB34.5 million. Our bills receivables substantially increased to approximately RMB196.8 million as at 31 March 2017. Such increase was primarily due to our increased sales in the PRC for the same period and the improvement of our cash flows from operating activities so that we discounted less bank acceptance bills received from our customers at banks for immediate cash settlement.

During the Track Record Period, we received certain bank acceptance bills (the “**Bills**”) from our customers as the payment for their purchases from us. These Bills are issued by our customers which are accepted at certain banks in the PRC (the “**Accepting Banks**”) and we typically discount such Bills with recourse to certain banks (the “**Bills Discounting Banks**”) when we need to obtain financing (the “**Bills Discounting Arrangement**”). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Bills (i.e. the Bills Discounting Banks) have a right of recourse against us if the Accepting Banks default (the “**Continuing Involvement**”). As such, we are normally exposed to the default risks of the Accepting Banks after the Bills Discounting Arrangement. During the Track Record Period, we typically assessed the default risks of the Accepting Banks to determine whether all risks and rewards relating to the Bills had been substantially transferred to the Bills Discounting Banks under the Bills Discounting Arrangement. If, in the opinion of our Directors, the default risk of the Accepting Banks was remote and therefore we had transferred substantially all risks and rewards relating to the Bills under the Bills Discounting Arrangement to the Bills Discounting Banks, we would derecognise the full carrying amounts of the Bills (the “**Derecognised Bills**”). Otherwise, we would continue to recognise the full carrying amounts of the Bills (the “**Recognised Bills**”) for the Continuing Involvement. As at 31 March 2015, 2016 and 2017, we

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discounted Recognised Bills with a carrying amount of approximately RMB9.5 million, RMB25.2 million and RMB17.5 million, respectively, which in the opinion of our Directors, we had retained the substantial risks and rewards, including default risks relating to the Recognised Bills, and accordingly, continued to recognise the full carrying amount of these Recognised Bills. The proceeds from discounting these Recognised Bills were recorded as our interest-bearing bank loans and other borrowings. On the other hand, as at 31 March 2015, 2016 and 2017, we discounted Derecognised Bills with a carrying amount of approximately RMB60.3 million, RMB87.3 million and RMB22.3 million, respectively. In the opinion of our Directors, as the Accepting Banks of these Derecognised Bills had good reputation and credit quality, such as Bank of China, China Construction Bank, Agricultural Bank of China, Industrial and Commercial Bank of China and other reputable listed banks rating at AAA by national credit rating agencies, the default risk of these Bills on maturity was remote. Therefore, we had transferred substantially all risks and rewards relating to these Derecognised Bills, and subsequently derecognised the full carrying amounts of these Derecognised Bills. For details of the Recognised Bills and the Derecognised Bills, please refer to note 20 set out in the accountants' report in Appendix I to this prospectus. According to our PRC Legal Advisers, we were in compliance with the relevant PRC laws and regulations for discounting our bills receivables during the Track Record Period.

Our management closely and actively monitors the recoverability of our trade and bills receivables on a regular basis, and when appropriate, provides for impairment for these trade and bills receivables. We typically review the recovery status of our trade and bills receivables from the individual customer on a case-by-case basis and maintain strict control over our outstanding receivables and overdue balances in order to minimise our credit risk. As at 31 March 2015, 2016 and 2017, we had trade receivables that were past due but not impaired of approximately RMB1.5 million, nil and RMB0.3 million, respectively, which were related to a few customers that had a good track record with us. Our Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in our credit quality and the balances are still considered fully recoverable. As at 31 March 2015, 2016 and 2017, none of our bills receivables were past due or impaired.

The following table sets out the aging analysis of our trade receivables as at the dates indicated, based on the invoice date:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 3 months	57,903	75,654	169,239
3 months to 6 months	31,643	3,978	21,303
6 months to 1 year	1,500	–	–
	91,046	79,632	190,542

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As at 31 July 2017, approximately RMB315.8 million or 81.5% of our trade and bills receivables as at 31 March 2017 had been settled.

The following table sets out the average turnover days of our trade and bills receivables for the periods indicated:

	Year ended 31 March		
	2015	2016	2017
Average turnover days of our trade and bills receivables ⁽¹⁾	26	32	56

Note:

1. Average turnover days of our trade and bills receivables equal to the average of the opening and closing balances of trade and bills receivables for the relevant financial year divided by revenue of the relevant financial year and multiplied by 365 days.

The average turnover days of our trade and bill receivables increased from approximately 26 days for the year ended 31 March 2015 to approximately 32 days for the year ended 31 March 2016, primarily due to our decreased revenue for the year ended 31 March 2016 as a result of our decreased sales to the Relevant Manufacturers. The average turnover days of our trade and bills receivables further increased to approximately 56 days for the year ended 31 March 2017, primarily due to our increased sales for the year ended 31 March 2017 as we continued to expand in the PRC. Further, the increase in the average turnover days of our trade and bills receivables was particularly attributable to our increased bills receivables for the same year, which was also due to the improvement of our cash flows from operating activities so that we discounted less bank acceptance bills received from our customers at banks for immediate cash settlement.

Prepayments, deposits and other receivables

The following table sets out a summary of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepayments	10,447	7,204	11,959
Current portion of prepaid lease payment	827	897	897
Deposits and other receivables.	10,475	1,849	2,635
Total:	21,749	9,950	15,491

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Our prepayments primarily relate to our prepaid custom taxes and prepayments for domestic and importing purchase. Our prepayment decreased from approximately RMB10.4 million as at 31 March 2015 to approximately RMB7.2 million as at 31 March 2016, primarily as a result of our decreased purchases of parts and components from Tsugami Japan as we have developed and manufactured certain Tsugami Japan Components since July 2013 due to our in-house customisation and development capabilities, and gradually increased our procurement from domestic suppliers. Our prepayments increased to approximately RMB12.0 million as at 31 March 2017, primarily due to our increased purchases of parts and components as a result of our increased production volume.

Our current portion of prepaid lease payment primarily relates to the prepaid land lease payment, which amounted to approximately RMB0.8 million, RMB0.9 million and RMB0.9 million as at 31 March 2015, 2016 and 2017, respectively.

Our deposits and other receivables primarily relate to the export value-added tax refund and custom deposits. Our deposits and other receivables were approximately RMB10.5 million, RMB1.8 million and RMB2.6 million as at 31 March 2015, 2016 and 2017, respectively. The relatively higher balances of our deposits and other receivables as at 31 March 2015 was primarily due to our relatively higher overseas sales made in the months close to the year ended 31 March 2015.

Trade and bills payables

Our trade and bills payables primarily relate to our purchases of parts and components from our suppliers, including Tsugami Japan. Our suppliers generally grant us a credit period ranging from 30 to 90 days from date of billing invoices. We generally settle our payables by bank transfer. We may also endorse part of bank acceptance bills we received from our customers to our suppliers for the settlement of our payables from time to time. As at 31 March 2015 and 2016 and 2017, the bank acceptance bills we received from our customers that were subsequently endorsed to our suppliers for the settlement of our trade payables amounted to approximately RMB146.4 million, RMB96.1 million and RMB135.6 million, respectively.

The following table sets out a summary of our trade and bills payables as at the dates indicated:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade payables	314,052	122,697	289,437
– Tsugami Japan Group	162,637	46,786	87,248
Bills payables	–	1,157	68,840
Total:	314,052	123,854	358,277

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Our trade and bills payables decreased from approximately RMB314.1 million as at 31 March 2015 to approximately 123.9 million as at 31 March 2016, primarily due to our settlement of trade and bills payables with our suppliers at such balance sheet date and our decreased purchases from Tsugami Japan as we have developed and manufactured certain Tsugami Japan Components since July 2013 due to our customisation and development capabilities, and have established relationship with and gradually increased our procurement from domestic suppliers. The decrease in our trade and bills payables as at 31 March 2016 was also attributable to our decreased purchases of parts and components in general as a result of our decreased sales to the Relevant Manufacturers for the year ended 31 March 2016. Our trade and bills payables increased to approximately RMB358.3 million as at 31 March 2017, primarily the result of our increased purchases of parts and components due to our increased production volume as a result of the increase in demand and sales of our CNC high precision machine tools in the PRC.

The following table sets out the ageing analysis of our trade payables as at the dates indicated:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Less than 3 months	244,769	122,371	289,437
3 to 6 months	69,283	326	–
6 months to 1 year	–	–	–
More than 1 year	–	–	–
	314,052	122,697	289,437

As at 31 July 2017, approximately RMB288.1 million or 99.5% of our trade payables as at 31 March 2017 had been settled.

The following table sets out the average turnover days of our trade and bills payables for the periods indicated:

	Year ended 31 March		
	2015	2016	2017
Average turnover days of our trade and bills payables ⁽¹⁾	83	70	65

Note:

- Average turnover days of our trade and bills payables equal to the average of the opening and closing balances of trade payables of the relevant financial year divided by cost of sales of the relevant financial year and multiplied by 365 days.

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The average turnover days of our trade and bills payables decreased during the Track Record Period, which can be attributable to our general decrease in purchases from Tsugami Japan as we have developed and manufactured certain Tsugami Japan Components since July 2013 due to our customisation and development capabilities, and have also established relationship with and gradually increased our procurement from domestic suppliers.

Other payables and accruals

Other payables and accruals mainly comprise payroll and welfare accruals, accruals, other payables and advances from customers. The following table sets out a breakdown of our other payables and accruals as at the dates indicated:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Payroll and welfare accruals	12,604	12,130	13,656
Accruals	14,109	8,559	9,906
Other payables	11,951	18,293	11,154
Advances from customers	129,331	17,515	48,631
– Tsugami Japan Group	105,620	–	–
Total:	167,995	56,497	83,347

Our payroll and welfare accruals primarily relate to the salaries and benefits, including social and commercial insurance premium, payable to our employees as at each of the balance sheet dates. Our payroll and welfare accruals amounted to approximately RMB12.6 million, RMB12.1 million and RMB13.7 million as at 31 March 2015, 2016 and 2017, respectively.

Our accruals primarily relate to our accrued listing expenses and other accruals. As at 31 March 2015 and 2016 and 2017, our accruals were approximately RMB14.1 million, RMB8.6 million and RMB9.9 million, respectively.

Our other payables primarily relate to our payable to suppliers for our purchases of production machinery and equipment as at each of the balance sheet dates. As at 31 March 2015, 2016 and 2017, our other payables were approximately RMB12.0 million, RMB18.3 million and RMB11.2 million, respectively.

Advances from customers primarily related to the initial deposit and prepayment received from our customers in the PRC and the Tsugami Japan Group. Our advances from customers amounted to approximately RMB129.3 million, RMB17.5 million and RMB48.6 million as at 31 March 2015, 2016 and 2017, respectively. Our advances from customers were relatively higher as at 31 March 2015, primarily due to the advances received from the Tsugami Japan Group as prepayment for their purchases from us as at such balance sheet date. We generally

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grant a credit period up to 60 days to the Tsugami Japan Group. Depending on the cash flows of the Tsugami Japan Group, it may pay us prepayment or the full purchase amount within a shorter period of time for their procurement from us. For more details of our credit period and payment for the Tsugami Japan Group, please refer to the section headed “Business – Sales – Credit period and payment” in this prospectus. The increase in our advances from customers increased as at 31 March 2017, primarily due to our increased sales in the PRC for the year ended 31 March 2017.

INDEBTEDNESS

Bank loans and other borrowings

Our bank loans and other borrowings primarily consisted of our interest-bearing bank loans. Our bank loans as at 31 March 2015, 2016 and 2017 were repayable within one year and were mainly denominated in Renminbi and/or U.S. dollars. Our bank loans as at 31 March 2015, 2016 and 2017, for the purpose of calculating our indebtedness, were as follows:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Discounted bills with recourse	9,520	25,212	17,498
Bank loans, unsecured	354,250	354,617	257,031
Total:	363,770	379,829	274,529

The following table sets forth the interest rate profile of our bank loans and other borrowings as at the dates indicated:

	As at 31 March		
	2015	2016	2017
	%/RMB'000	%/RMB'000	%/RMB'000
Bank loans and other borrowings bear interest at rates per annum in the range of	1.66 – 5.60	1.66 – 5.60	2.10 – 4.39
Repayable within one year or on demand	363,770	379,829	274,529

During the Track Record Period, we primarily used our bank loans for our general working capital, purchases of production plant, machinery and equipment, purchases of parts and components and payment of dividends. All of our bank loans were unsecured during the Track Record Period. As at 31 March 2015, 2016 and 2017, our bank borrowings amounted to approximately RMB354.3 million, RMB354.6 million and RMB257.0 million respectively, which was primarily used for our general working capital purposes.

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As at 31 July 2017, also being the latest practicable date for the purpose of indebtedness statement in this prospectus, our bank loans amounted to RMB257.0 million and our discounted bills with recourse amounted to RMB9.5 million. The bank loans were primarily used for our general working capital purposes. We plan to service our indebtedness primarily using expected cash generated from operation for the two years ending 31 March 2018 and 2019, unutilised banking facilities as at 31 July 2017 amounting to approximately RMB426.9 million with no restriction on their drawdown and estimated net proceeds from the Global Offering. Our Directors confirm that we have not had any material default with regard to any bank loans and other borrowings, and have not breached any financial covenants in our bank loans during the Track Record Period and up to the Latest Practicable Date. We also did not experience any difficulty in obtaining credit facilities, withdrawal of facilities, default in payment of bank borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Except as disclosed above, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance or acceptance credits or any guarantees outstanding as at 31 July 2017. There are no material covenants relating to our outstanding debt that would prevent us from raising additional bank or other external financing. Our Directors also confirm that there has not been any material change in our indebtedness since 31 July 2017 and that we do not foresee or expect any difficulties in meeting our future financial obligations.

CAPITAL EXPENDITURES

Historical capital expenditures

The following table sets out our historical capital expenditures during the periods indicated:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	79,123	23,609	9,785
Prepaid land lease payment	21,688	–	–
Intangible assets	–	846	936
Total:	100,811	24,455	10,721

The capital expenditures incurred for the three years ended 31 March 2015, 2016 and 2017 represented additions of property, plant and equipment for our Pinghu Production Plants, our prepaid land lease payment and purchase of software. We financed our capital expenditures primarily through our cash generated from our operating activities, bank loans and Shareholder's loans.

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Planned capital expenditures

As part of our future development strategies, we currently expect to incur approximately RMB53.5 million in capital expenditures through the year ending 31 March 2020, primarily to be used for rebuilding and renovating part of our production plant four, purchasing and replacing production machinery and equipment at our Pinghu Production Plants and establishing two flagship showrooms in Tianjin and Wuhan. The following table sets out a summary of our planned capital expenditures for the periods indicated:

	Year ending 31 March		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Rebuilding and renovating part of our production plant four	19,800	17,700	–
Purchasing and replacing production machinery and equipment for our Pinghu Production Plants	7,280	5,460	2,638
Establishing two flagship showrooms in Tianjin and Wuhan	–	300	300
Total:	27,080	23,460	2,938

We anticipate that our planned capital expenditures will be financed by proceeds from the Global Offering. The estimated amounts of expenditures set out above may vary from the actual amounts of expenditures for a variety of reasons, including changes in market conditions, competition and other factors.

Our current plan with respect to future capital expenditures is subject to change based on the evolution of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding in the future is subject to a variety of uncertainties including our future results of operations, economic, political and other conditions in the PRC and elsewhere, government policies relating to our industry and relevant rules and regulations in the PRC and elsewhere. Other than as required by laws and relevant rules and regulations, we do not undertake any obligation to publish updates of our capital expenditure plans. Please also refer to the section headed “Forward-looking Statements” in this prospectus.

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CONTRACTUAL COMMITMENTS

Capital commitments

Our capital commitments as at 31 March 2015, 2016 and 2017 were primarily related to the purchases of production machinery and equipment. The following table sets out a summary of our capital commitments as at the dates indicated:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Contracted, but not provide for:			
Land and buildings.	5,500	2,650	2,520

Operating lease commitments

As at the Latest Practicable Date, we had leased 69 properties in various provinces in the PRC primarily as our representative and branch offices, warehouse and employees' dormitories. We had non-cancellable operating lease agreements with respect to our rentals payable primarily for our representative and branch offices, and such leases are negotiated for terms ranging from one to three years. The decrease in our operating lease commitments from approximately RMB1.7 million as at 31 March 2015 to approximately RMB1.1 million as at 31 March 2016 was primarily due the expiration of certain operating lease agreements at such balance sheet date. Our operating lease commitments increased to approximately RMB2.9 million as at 31 March 2017, primarily as a result of the increase in the number of our representative and branch offices as we continued to expand our sales network in the PRC. The table below sets out the outstanding commitments for future minimum lease payments under our non-cancellable lease agreements as at the dates indicated:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within one year.	1,579	907	1,643
In the second to fifth years, inclusive . .	141	149	1,207
Total:	1,720	1,056	2,850

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RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into various transactions with the Tsugami Japan Group, some of which will continue after the Listing. These transactions primarily include (i) sales of certain CNC high precision machine tools to the Tsugami Japan Group; (ii) procurement of certain parts and components from Tsugami Japan; and (iii) licencing of the Trademarks and the Technology from Tsugami Japan. Our Directors are of the view that such transactions have been carried out in the ordinary course of business of our Group and are entered into on normal commercial terms and are fair and reasonable. Please refer to the sections headed “Connected Transactions” and “Relationship with our Controlling Shareholder” in this prospectus for further details of our connected transactions.

PROPERTY INTEREST AND PROPERTY VALUATION

The table below sets out the reconciliation of the net book value of our Group’s property interests as reflected on the audited consolidated financial statements as at 31 March 2017 to their market values as stated in the property valuation report as at 30 June 2017 as set out in Appendix III to this prospectus:

	<u>RMB million</u>
Net book value of property interests of our Group as at 31 March 2017	206.5
Movements for the period from 1 April 2017 to 30 June 2017	<u>(3.0)</u>
Net book value of property interests of our Group as at 30 June 2017	203.5
Valuation surplus	<u>35.0</u>
Valuation of our Group’s property interests as at 30 June 2017	<u><u>238.5</u></u>

CONTINGENT LIABILITIES

As at 31 March 2015, 2016 and 2017, we had no material contingent liabilities. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings that involve our Group. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Our Directors confirm that there has been no contingent liabilities of our Group since 31 March 2017.

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FINANCIAL RATIOS

	Year ended 31 March		
	2015	2016	2017
Net profit margin ⁽¹⁾	8.7%	4.1%	6.9%
Return on equity ⁽²⁾	33.9%	9.9%	17.3%
Return on assets ⁽³⁾	12.8%	4.9%	8.1%
Interest coverage ⁽⁴⁾	13.1	5.3	13.2
	As at 31 March		
	2015	2016	2017
Current ratio ⁽⁵⁾	1.1	1.3	1.4
Quick ratio ⁽⁶⁾	0.3	0.4	0.7
Gearing ratio ⁽⁷⁾	69.2%	67.2%	42.1%
Net debt to equity ratio ⁽⁸⁾	52.3%	50.2%	23.1%

Notes:

1. Net profit margin represents profit for the financial year divided by revenue for the same financial year.
2. Return on equity represents profit for the financial year divided by total equity as at the end of the financial year.
3. Return on assets represents profit for the financial year divided by total assets as at the end of the financial year.
4. Interest coverage represents profit before tax and finance costs divided by finance costs for the financial year.
5. Current ratio represents total current assets divided by total current liabilities as at the end of the financial year.
6. Quick ratio represents total current assets less inventories divided by total current liabilities as at the end of the financial year.
7. Gearing ratio represents bank loans and other borrowings divided by total equity as at the end of the financial year.
8. Net debt to equity ratio represents bank loans and other borrowings less cash and cash equivalents divided by total equity as at the end of the financial year.

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Net profit margin

Our net profit margin decreased from approximately 8.7% for the year ended 31 March 2015 to approximately 4.1% for the year ended 31 March 2016, primarily as a result of the decrease in our gross profit margin from approximately 19.8% for the year ended 31 March 2015 to approximately 16.0% for the year ended 31 March 2016. Such decrease was primarily attributable to (i) our decreased sales of precision automatic lathes with various specifications and/or customisations to the Relevant Manufacturers; and (ii) some of our production overhead costs, which were fixed costs and were relatively less sensitive to our decreased sales for the year ended 31 March 2016. The decrease in our net profit margin for the year ended 31 March 2016 was also attributable to the increase in our other expenses for the same period, primarily due to our losses on foreign exchange as a result of the effect of the general appreciation of JPY and USD against Renminbi on our repayment of short-term bank borrowings denominated in USD and our overseas procurement from Tsugami Japan denominated in JPY, which were partially offset by the same appreciation effect on our overseas sales to the Tsugami Japan Group denominated in JPY. Our net profit margin increased to approximately 6.9% for the year ended 31 March 2017. Such increase was primarily due to the decreases in our other expenses and administrative expenses for the year ended 31 March 2017. The decrease in our other expenses was primarily due to the decrease in our losses on foreign exchange as a result of (i) the effect of the general appreciation of JPY and USD against Renminbi on our repayment of short-term bank borrowings denominated in USD and our procurement from Tsugami Japan denominated in JPY, which were partially offset by the same appreciation effect on our sales to the Tsugami Japan Group denominated in JPY; and (ii) our reduction of foreign exchange exposure as we started to settle part of our sales to the Tsugami Japan Group and part of our procurement from Tsugami Japan in Renminbi instead of JPY since May 2016. The decrease in our administrative expenses was primarily the result of the decrease in our customisation and development expenses as we had put more efforts on customisation and development during the year ended 31 March 2016 to develop and upgrade the models of our precision turret machines and precision machining centres. The increase in our net profit margin for the year ended 31 March 2017 was also attributable to the increase in our gross profit margin for the same period. Such increase was primarily due to the increases in gross profit margins of our precision turret machines and precision grinding machines from approximately 7.2% and 32.7% for the year ended 31 March 2016, respectively, to approximately 12.5% and 35.0% for the year ended 31 March 2017, respectively, which were primarily due to the increases in demand for and our sales of these two types of machine tools in the PRC with various customisations and specifications that had higher gross profit margins in general to end customers primarily engaged in the automobile industry.

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Return on equity

Our return on equity decreased from approximately 33.9% for the year ended 31 March 2015 to approximately 9.9% for the year ended 31 March 2016, primarily due to the decrease in our profit for the year ended 31 March 2016 as a result of our decreased sales to the Relevant Manufacturers in that year. Our return on equity increased to approximately 17.3% for the year ended 31 March 2017, primarily due to the increase in our profit for the period as a result of our increased sales in the PRC as we continued to expand our sales network and the application uses of our CNC high precision machine tools.

Return on assets

Our return on assets decreased from approximately 12.8% for the year ended 31 March 2015 to approximately 4.9% for the year ended 31 March 2016, primarily due to the decrease in our profit for the year ended 31 March 2016 as a result of our decreased sales to the Relevant Manufacturers in that year. Our return on assets increased to approximately 8.1% for the year ended 31 March 2017, primarily due to the increase in our profit as a result of our increased sales in the PRC.

Interest coverage

Our interest coverage decreased from approximately 13.1 for the year ended 31 March 2015 to approximately 5.3 for the year ended 31 March 2016, primarily due to the decrease in our profit for the year ended 31 March 2016 as a result of our decreased sales to the Relevant Manufacturers in that year. Our interest coverage increased to approximately 13.2 for the year ended 31 March 2017, primarily as a result of our decreased finance costs for the year ended 31 March 2017, which was primarily due to the decrease in interests on our bank loans and discounting bills.

Current ratio and quick ratio

Our current ratio increased from approximately 1.1 as at 31 March 2015 to approximately 1.3 as at 31 March 2016, primarily the result of the decrease in our current liabilities as at 31 March 2016. Such decrease was primarily due to the decrease in our trade and bills payables, primarily as a result of our increased domestic procurement instead of overseas procurement. Our current ratio further increased to approximately 1.4 as at 31 March 2017, primarily due to the increase in our current assets. Such increase was primarily attributable to the increase in our trade and bills receivables as a result of our increases sales in the PRC. Our quick ratio was relatively stable as at 31 March 2015 and 2016 at approximately 0.3 and 0.4, respectively. Our quick ratio increased to approximately 0.7 as at 31 March 2017, primarily as a result of the increase in our current assets, also attributable to the increase in our trade and bill receivables as a result of our increased sales in the PRC.

FINANCIAL INFORMATION

Gearing ratio

Our gearing ratio decreased from approximately 69.2% as at 31 March 2015 to approximately 67.2% as at 31 March 2016, primarily due to our slightly increased total equity as at 31 March 2016. Our gearing ratio further decreased to approximately 42.1% as at 31 March 2017, primarily due to the decrease in our bank loans and other borrowings as we continued to improve our cash from operating activities and repay our bank loans.

Net debt to equity ratio

Our net debt to equity ratio decreased from approximately 52.3% as at 31 March 2015 to approximately 50.2% as at 31 March 2016, primarily as a result of our increased cash and cash equivalents and total equity as at 31 March 2016. Our net debt to equity ratio further decreased to approximately 23.1% as at 31 March 2017, primarily due to the decrease in our bank loans and other borrowings as we continued to improve our cash from operating activities and repay our bank loans.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Save as disclosed in the paragraphs headed “Contractual commitments” and “Indebtedness” in this section, we had not entered into any material off-balance sheet transactions as at 31 March 2017.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various types of market risks in the ordinary course of our business, including interest rate risk, foreign currency risk, credit risk and liquidity risk. Our exposure to these market risks are described below.

Interest rate risk

Our exposure to market risk for changes in interest rates primarily relates to our interest-bearing bank loans and other borrowings. We do not use derivative financial instruments to hedge our interest rate risks. Further quantitative data in respect of our exposure to interest rate risk are set out in more details in note 36 to the accountants’ report in Appendix I to this prospectus.

FINANCIAL INFORMATION

Foreign currency risk

We have transactional currency exposures. Such exposures arise from sales, purchases or borrowings by us in currencies other than our functional currency, Renminbi. For the three years ended 31 March 2015, 2016 and 2017, approximately 27.2%, 43.0% and 10.2% of our revenue and approximately 39.5%, 38.5% and 8.0% of our purchases were denominated in JPY, respectively. For illustrative purposes only, we set out below a sensitivity analysis with reference to a reasonably possible fluctuation of our foreign exchange rates due to changes in fair value of monetary assets and liabilities, with all other variables held constant, of our profit before tax, as at the dates indicated:

	Change in foreign currency rate	Increase/ (decrease) in profit before tax
	%	RMB'000
As at 31 March 2015		
If RMB weakens against JPY	5.0%	(6,195)
If RMB strengthens against JPY	5.0%	6,195
If RMB weakens against US\$	5.0%	(10,312)
If RMB strengthens against US\$	5.0%	10,312
As at 31 March 2016		
If RMB weakens against JPY	5.0%	1,184
If RMB strengthens against JPY	5.0%	(1,184)
If RMB weakens against US\$	5.0%	(8,368)
If RMB strengthens against US\$	5.0%	8,368
As at 31 March 2017		
If RMB weakens against JPY	5.0%	1,005
If RMB strengthens against JPY	5.0%	(1,005)
If RMB weakens against US\$	5.0%	(103)
If RMB strengthens against US\$	5.0%	103

FINANCIAL INFORMATION

In order to reduce our foreign exchange exposure, since May 2016, we have started and gradually settled part of our sales to the Tsugami Japan Group and part of our procurement from Tsugami Japan in Renminbi instead of JPY. For the year ended 31 March 2017, approximately 29.4% of our sales to Tsugami Japan Group and approximately 16.1% of our purchases from Tsugami Japan were denominated in JPY, respectively. In future, we plan to settle more of our sales to the Tsugami Japan Group and our procurement from Tsugami Japan in Renminbi to the extent possible. Further, we had also settled all of our bank loans in other currencies as at the Latest Practicable Date. All of our bank loans are currently denominated in Renminbi.

Credit risk

We trade only with related parties and recognised and creditworthy third parties. It's our policy that all customers that want to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

The credit risk of our other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

We manage concentrations of credit risk by customer. We had certain concentrations of credit risk at the end of each of the reporting period as approximately 46.7%, 49.9% and 43.5% of our trade receivables as at 31 March 2015, 2016 and 2017, respectively, were due from our Controlling Shareholder and our largest third-party customer.

Further quantitative data in respect of our exposure to credit risk arising from trade receivables are set out in more details in note 36 to the accountants' report in Appendix I to this prospectus.

Liquidity risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both our financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

The Cayman Islands law provides that either profit or share premium account of a company incorporated in the Cayman Islands, such as our Company, may be applied in such manner as it may from time to time determine, subject to the provisions, if any, of its memorandum and articles of association, provided that no distribution or dividend may be paid to its members out of the share premium account or profit if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Our Company's reserve available for distribution as dividend comprises its profit and share premium account. As at 31 March 2017, the retained profits and share premium of our Company were RMB62,000 and RMB329,406,000 respectively.

DIVIDEND

For the three years ended 31 March 2015, 2016 and 2017, we paid dividends of nil, approximately RMB17.5 million and RMB26.6 million, respectively, to our then equity holder. In May 2017, we further declared dividend of HK\$16.0 million to our then equity holder.

After Listing, we intend to declare and pay dividends every year, but we currently do not have a fixed dividend payout ratio. The declaration, payment and the amount of dividends will be subject to our discretion and will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute dividends in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

LISTING EXPENSES AND RECENT DEVELOPMENT

For the years ended 31 March 2015, 2016 and 2017, we incurred listing expenses of approximately HK\$18.6 million, HK\$5.8 million and HK\$11.9 million, respectively, of which approximately HK\$15.6 million, HK\$6.9 million and HK\$11.0 million, respectively, were charged to our consolidated statements of profit or loss and other comprehensive income for the same periods and approximately HK\$2.8 million in total was recorded as advance payment, and will be charged to equity upon Listing. We expect to further incur listing expenses (including underwriting commissions) of approximately HK\$42.2 million (based on mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised) by the completion of the Global Offering, of which an estimated amount of approximately HK\$21.2 million will be charged to our consolidated statements of profit or loss and other comprehensive income and an estimated amount of approximately HK\$21.0 million will be charged to equity. We do not expect these listing expenses to have a material impact on our business and results of operations for the year ending 31 March 2018.

FINANCIAL INFORMATION

The following represents our management's analysis on our results of operations for the three months ended 30 June 2017. Our Directors are responsible for the preparation and fair presentation of the unaudited condensed consolidated financial statements of our Group for the three months ended 30 June 2017 in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. Our condensed consolidated financial statements for the three months ended 30 June 2017 are unaudited but have been reviewed by our reporting accountants, Ernst & Young, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Based on our unaudited condensed consolidated financial statements, our total revenue increased by approximately 84.6%, or RMB272.6 million, from approximately RMB322.2 million for the three months ended 30 June 2016 to approximately RMB594.8 million for the three months ended 30 June 2017, primarily due to our business growth during the same period. Such business growth was primarily the results of (i) sales of our CNC high precision machine tools to new customers in the PRC as we continued to expand our sales network; (ii) the expansion of application uses of our CNC high precision machine tools, especially for the industry of automobile; and (iii) the general increase in demand of our CNC high precision machine tools from our customers in the PRC. Based on our unaudited condensed consolidated financial statements, our gross profit increased by approximately 104.4% for the three months ended 30 June 2017 as compared to the same for the three months ended 30 June 2016, primarily due to our increased sales as a result of our continuous business expansion. Our overall gross profit margin also increased by approximately 2.0% for the three months ended 30 June 2017 as compared to the same for the three months ended 30 June 2016, primarily due to the general economies of the scale resulting from the increase in our sales volume for the three months ended 30 June 2017.

TSUGAMI JAPAN FIRST QUARTER RESULTS

Warning Statement

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS TO MAKE YOUR INVESTMENT DECISION. IN PARTICULAR, YOU SHOULD NOT RELY ON ANY PARTICULAR STATEMENTS IN OTHER PUBLISHED ANNOUNCEMENTS, PRESS AND MEDIA COVERAGE AND/OR RESEARCH ANALYST REPORTS RELATING TO OUR CONTROLLING SHAREHOLDER, TSUGAMI JAPAN, OUR GROUP AND THE GLOBAL OFFERING. PLEASE REFER TO THE SECTION HEADED "DISCLOSURE BY THE CONTROLLING SHAREHOLDER" IN THIS PROSPECTUS.

FINANCIAL INFORMATION

On 28 July 2017 and 9 August 2017, Tsugami Japan published its financial results summary and report for the three months ended 30 June 2017 on the Tokyo Stock Exchange, respectively (collectively, the “**TJ First Quarter Results**”). The following is a summary of the selected financial information relating to Tsugami Japan’s performance in its China segment, which comprises the whole financial performance of our Group for the same period, extracted from the TJ First Quarter Results:

	Three months ended 30 June 2017
	JPY million
Net sales	9,800
Operating income	1,375

Tsugami Japan announced that (i) the net sales of its China segment increased by approximately 87.2% from JPY5,236 million for the three months ended 30 June 2016 to JPY9,800 million for the three months ended 30 June 2017; and (ii) the operating income for its China segment also increased from JPY628 million for the three months ended 30 June 2016 to JPY1,375 million for the three months ended 30 June 2017. As confirmed by Tsugami Japan, the net sales of its China segment in the TJ First Quarter Results was derived from our revenue and the operating income of its China segment in the TJ First Quarter Results was derived from our gross profit less selling and distribution expenses and administrative expenses. Our Directors confirm that there is no material difference between the financial information of its China segment published by Tsugami Japan and our financial information.

The TJ First Quarter Results were prepared by Tsugami Japan for its own reporting and disclosure purpose. We make no representation as to the appropriateness, accuracy, completeness or reliability of the information disclosed in the TJ First Quarter Results. Investors should not rely on any particular statements from the TJ First Quarter Results, or in other published announcements, press and media coverage and/or research analyst reports relating to Tsugami Japan, our Group and the Global Offering other than those issued by us.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there had been no material adverse change in our financial or trading position since 31 March 2017 and there is no event since 31 March 2017 which would materially affect the information shown in the accountants’ report in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of our adjusted net tangible assets, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 March 2017. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as at 31 March 2017 or any future dates.

	Consolidated net tangible assets of our Group attributable to equity holders of our Company as at 31 March 2017 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	(Note 3) RMB	(Note 4) HK\$
Based on the minimum indicative Offer Price of HK\$4.60 per Share	649,057	205,847	854,904	2.37	2.68
Based on the maximum indicative Offer Price of HK\$5.60 per Share	649,057	256,020	905,077	2.51	2.84

Notes:

- The consolidated net tangible assets attributable to owners of the Company as at 31 March 2017 is arrived at after deducting the intangible assets of RMB2,840,000 from the audited consolidated equity attributable to owners of the Company of RMB651,897,000 as at 31 March 2017, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus.
- The estimate net proceeds from the Global Offering are based on the maximum and minimum indicative Offer Price of HK\$5.60 and HK\$4.60, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and 60,000,000 Shares expected to be issued under the Global Offering, taking no account of any Shares which may be issued upon the exercise of the Pre-IPO Share Options and the Over-allotment Option.
- The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to above and on the basis of 360,000,000 Shares (after considering the expected new shares issued upon the Capitalisation Issue and the Global Offering) in issue, and taking no account of any Shares which may be issued upon the exercise of the Pre-IPO Share Options and the Over-allotment Option.
- The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK\$1.13.
- The unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company does not take into account a cash dividend of HK\$16,000,000 to the Controlling Shareholder approved by the Board of Directors on 25 May 2017. The cash dividend was paid on 12 June 2017. Had the cash dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company per share would be HK\$2.64 per share (based on the Offer Price of HK\$4.60 per Offer Share) or HK\$2.80 per share (based on the Offer Price of HK\$5.60 per Offer Share).
- No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2017.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business – Future strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds of the Global Offering to be received by us (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK\$5.10 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$4.60 to HK\$5.60 per Offer Share) will be approximately HK\$227.5 million, assuming that the Over-allotment Option is not exercised. We currently intend to apply such net proceeds in the following manner:

- approximately HK\$42.4 million, representing approximately 18.6% of the net proceeds from the Global Offering to our Company, is expected to be used primarily for the rebuilt and renovation of part of our production plant four to particularly enhance our production process for assembling. We expect to commence the construction work at our production plant four in September 2017 and complete by July 2018. Please also refer to the sections headed “Business – Production – Future expansion plan” and “Financial Information – Capital expenditures – Planned capital expenditures” in this prospectus for more details;
- approximately HK\$17.4 million, representing approximately 7.6% of the net proceeds from the Global Offering to our Company, is expected to be used primarily for purchasing and replacing production machinery and equipment, including eight grinding machines, one horizontal machining centre and one chuck heat treatment device (which helps to heat up the materials of the chunks in order to increase their hardness to achieve high wear resistance and reciprocating accuracy), for our Pinghu Production Plants to enhance our production capacities and better control our subcontracting manufacturing costs. Please also refer to the sections headed “Business – Production – Future expansion plan” and “Financial Information – Capital expenditures – Planned capital expenditures” in this prospectus for more details;
- approximately HK\$1.7 million, representing approximately 0.8% of the net proceeds from the Global Offering to our Company, is expected to be used primarily for strengthening our sales and customer services, further expanding our sales network and increasing our market penetration in the PRC, including establishing two flagship showrooms to showcase our CNC high precision machine tools in Tianjin and Wuhan and establishing five customer services centres in Changchun, Taizhou, Changsha, Chengdu and Guangzhou to facilitate the provision of our aftersales customer services to enhance our aftersales services and support for our customers; and

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$166.0 million, representing approximately 73.0% of the net proceeds from the Global Offering to our Company, is expected to be used primarily for repaying part of our bank loans (the balance as at 31 March 2017 was approximately RMB257.0 million, which were primarily used for our general working capital, and repayable within one year and with fixed interest rate of 4.35% and/or 4.39%).

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholder in the Global Offering. The Selling Shareholder estimates that it will receive, in aggregate, net proceeds from the Global Offering of approximately HK\$144.6 million, after deducting the estimated underwriting commissions and expenses payable by them in the Global Offering and assuming an Offer Price of HK\$5.10 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$4.60 to HK\$5.60 per Offer Share in this prospectus.

If the Offer Price is set at the high end of the indicative Offer Price range, being HK\$5.60 per Offer Share, the net proceeds of the Global Offering to our Company (assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$28.4 million. If the Offer Price is set at the low end of the indicative Offer Price range, being HK\$4.60 per Share, the net proceeds of the Global Offering to our Company (assuming that the Over-allotment Option is not exercised) will decrease by approximately HK\$28.4 million. In this event, we intend to apply such increase or decrease in net proceeds for repaying our bank loans, details of which are disclosed above.

If the Over-allotment Option is exercised in full, the additional net proceeds of the Global Offering to our Company are estimated to be approximately HK\$99.8 million (based on the maximum indicative Offer Price of HK\$5.60 per Offer Share), HK\$65.1 million (based on the Offer Price of HK\$5.10, being the mid-point of the indicative Offer Price range of HK\$4.60 to HK\$5.60 per Offer Share), and HK\$30.3 million (based on the minimum indicative Offer Price of HK\$4.60 per Offer Share). We intend to apply the additional net proceeds to our Company from the exercise of the Over-allotment Option to repay our bank loans, details of which are disclosed above.

Should our Directors decide to reallocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds of the Global Offering to our Company are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions for so long as it is in our best interests. We will also disclose the same in the relevant annual report.

FUTURE PLANS AND USE OF PROCEEDS

As advised by our PRC Legal Advisers, subject to the relevant PRC governmental approval, registrations and/or filings, the net proceeds of the Global Offering can be applied in the PRC according to the above intended use of the net proceeds under the relevant existing laws and regulations in the PRC by: (i) increasing the registered capital of our Company's subsidiary in the PRC; (ii) establishing a new subsidiary in the PRC; (iii) acquiring equity interests in other companies in the PRC; and/or (iv) providing shareholder's loans to our Company's subsidiary in the PRC in an amount not exceeding the difference between the investment amount and the registered capital of such subsidiary. Our Directors are of the view that there will be no material impact on our Group's liquidity requirements if the net proceeds of the Global Offering cannot be applied in the PRC.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (the “**Cornerstone Investment Agreements**”) with three cornerstone investors (the “**Cornerstone Investors**”) who agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) at the Offer Price with an aggregate amount of JPY2,000,000,000 (equivalent to approximately HK\$143.7 million) (the “**Cornerstone Investor Shares**”), subject to adjustments that may be required under the Listing Rules. Assuming an Offer Price of HK\$5.10 (being the mid-point of the Offer Price range) and subject to any adjustments, the total number of Offer Shares subscribed by the Cornerstone Investors would be 28,172,000, representing approximately 31.3% of the Offer Shares and approximately 7.9% of the total issued Shares immediately following the completion of the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options). The following table sets forth certain information regarding the anticipated holding of Offer Shares of the Cornerstone Investors:

Cornerstone Investors	Assuming an Offer Price of HK\$4.60 (being the low end of the Offer Price range)	Assuming an Offer Price of HK\$5.10 (being the mid-point of the Offer Price range)	Assuming an Offer Price of HK\$5.60 (being the high end of the Offer Price range)
	Approximate % of Shares immediately following the completion of the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options)	Approximate % of Shares immediately following the completion of the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options)	Approximate % of Shares immediately following the completion of the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options)
	Total number of Cornerstone Investor Shares to be subscribed for ⁽⁴⁾	Total number of Cornerstone Investor Shares to be subscribed for ⁽⁴⁾	Total number of Cornerstone Investor Shares to be subscribed for ⁽⁴⁾
FANUC Corporation ⁽¹⁾	7,808,000	7,043,000	6,414,000
SMC Corporation ⁽²⁾	7,808,000	7,043,000	6,414,000
Tokyo Seimitsu Co., LTD. ⁽³⁾	15,617,000	14,086,000	12,828,000
Total	31,233,000	28,172,000	25,656,000
	8.7	7.9	7.2

Notes:

- (1) The committed investment amount of FANUC Corporation is JPY500,000,000 (equivalent to approximately HK\$35.9 million).
- (2) The committed investment amount of SMC Corporation is JPY500,000,000 (equivalent to approximately HK\$35.9 million).
- (3) The committed investment amount of Tokyo Seimitsu Co., LTD. is JPY1,000,000,000 (equivalent to approximately HK\$71.9 million).
- (4) Rounded down to the nearest whole board lot of 1,000 Shares.

CORNERSTONE INVESTORS

Each of the Cornerstone Investors is an Independent Third Party. Each of the Cornerstone Investors has respectively represented, warranted and undertaken to our Company, among other matters, that: (i) it and its beneficial owners and/or associates are independent from and not an existing shareholder, chief executive or director of, our Company or its associates; (ii) none of it and its beneficial owners and/or associates is a connected person of our Company; (iii) its purchase of the Cornerstone Investor Shares will not constitute a connected transaction or result in them becoming a connected person of our Company; (iv) all of them will, immediately after completion of the Global Offering, be independent of, and not acting in concert with (as defined in the Takeovers Code) any connected persons in relation to the control of our Company or any acquisition, disposal, voting or any other disposition of securities in our Company; and (v) all of them are not affiliate of our Company or person acting on behalf of our Company or on behalf of such an affiliate. The Cornerstone Investors will acquire the Offer Shares pursuant to, and as part of, the International Offering. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company or be a substantial shareholder of our Company. The Cornerstone Investors will not apply for or place an order through the book building process or otherwise for any Offer Shares under the International Offering other than pursuant to the Cornerstone Investment Agreements or make an application for any Offer Shares in the Hong Kong Public Offering. The shareholdings of the Cornerstone Investors will be counted towards the public float of our Shares.

Each of the Cornerstone Investors has respectively acknowledged, agreed and confirmed to our Company that our Company will have absolute discretion to change or adjust: (i) number of Shares comprising the Offer Shares or any part thereof; and/or (ii) allocation of Offer Shares to the Hong Kong Public Offering and the International Offering under the Global Offering or any part thereof. Details of the actual allocations to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering expected to be published on Friday, 22 September 2017.

THE CORNERSTONE INVESTORS

Details of the Cornerstone Investors are set forth below:

1. FANUC Corporation (“FANUC”)

FANUC is a company incorporated in Japan whose shares are listed on the Tokyo Stock Exchange (TYO: 6954). FANUC and its subsidiaries are principally engaged in the development, manufacture, sales and service of CNC system (CNC and Servo), laser, robot and robo-machine. FANUC has a global sales network covering America, Europe, Africa, Asia and Oceania for its products. The market capitalisation of FANUC was approximately JPY4,418.8 billion, taking into account of the closing stock price of JPY21,655 as at 30 June 2017. During the Track Record Period, a joint venture of FANUC and other Independent Third Parties was one of our top five suppliers. Tsugami Japan, our Controlling Shareholder, held approximately 0.025% of the shareholding of FANUC as at 31 March 2017.

CORNERSTONE INVESTORS

FANUC has agreed to subscribe for such number of Cornerstone Investor Shares (rounded down to the nearest board lot of 1,000 Shares) which may be subscribed for with an aggregate amount of JPY500,000,000 (equivalent to approximately HK\$35.9 million) at the Offer Price. Assuming an Offer Price of HK\$5.10 being the mid-point of the Offer Price range, FANUC will subscribe for approximately 7,043,000 Shares, representing approximately 2.0% of the Shares upon completion of the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options).

2. SMC Corporation (“SMC”)

SMC is a company incorporated in Japan in 1959 whose shares are listed on the Tokyo Stock Exchange (TYO: 6273). SMC and its subsidiaries are principally engaged in the manufacture, processing and sales of automatic control equipment and the manufacture and sales of sintered filters and various types of filtration equipment. SMC has six factory plants located in Soka, Tsukuba, Shimotsuma, Kamaishi, Tono and Yamatsuri in Japan. The market capitalisation of SMC was approximately JPY2,300 billion, taking into account of the closing stock price of JPY34,150 as at 30 June 2017. During the Track Record Period, a subsidiary of SMC was one of our top five suppliers.

SMC has agreed to subscribe for such number of Cornerstone Investor Shares (rounded down to the nearest board lot of 1,000 Shares) which may be subscribed for with an aggregate amount of JPY500,000,000 (equivalent to approximately HK\$35.9 million) at the Offer Price. Assuming an Offer Price of HK\$5.10 being the mid-point of the Offer Price range, SMC will subscribe for approximately 7,043,000 Shares, representing approximately 2.0% of the Shares upon completion of the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options).

3. Tokyo Seimitsu Co., LTD. (“Tokyo Seimitsu”)

Tokyo Seimitsu is a company incorporated in Japan in 1949 whose shares are listed on the Tokyo Stock Exchange (TYO: 7729). Tokyo Seimitsu and its subsidiaries are principally engaged in the manufacture and sales of semiconductor production equipment and measuring instruments. Tokyo Seimitsu has two factory plants located in Japan. The market capitalisation of Tokyo Seimitsu was approximately JPY150.1 billion, taking into account of the closing stock price of JPY3,615 as at 30 June 2017. Dr. Tang Donglei was an external director of Tokyo Seimitsu since June 2017. Tsugami Japan, our Controlling Shareholder, held approximately 2.5% of the shareholding of Tokyo Seimitsu as at 31 March 2017. Mizuho Trust & Banking Co., Ltd. (employee retirement benefit trust of Tokyo Seimitsu, new trust custodian: Trust & Custody Services Bank, Ltd.) held approximately 3.99% of the shareholding of Tsugami Japan, as at 31 March 2017. During the Track Record Period, Tokyo Seimitsu was one of our suppliers.

CORNERSTONE INVESTORS

Tokyo Seimitsu has agreed to subscribe for such number of Cornerstone Investor Shares (rounded down to the nearest board lot of 1,000 Shares) which may be subscribed for with an aggregate amount of JPY1,000,000,000 (equivalent to approximately HK\$71.9 million) at the Offer Price. Assuming an Offer Price of HK\$5.10 being the mid-point of the Offer Price range, Tokyo Seimitsu will subscribe for approximately 14,086,000 Shares, representing approximately 3.9% of the Shares upon completion of the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options).

CONDITIONS PRECEDENT

The obligations of the Cornerstone Investors under the Cornerstone Investment Agreements are subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into by, inter alia, our Company and the Sole Global Coordinator and having become effective and unconditional (in accordance with their respective terms) by no later than the time and date as specified therein or such later time and date as may be agreed by the Sole Global Coordinator and none of such agreements having been terminated;
- (b) the Listing Committee having approved the listing of, and permission to deal in, the Shares and that such approval or permission not having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange; and
- (c) the respective representations, warranties, undertakings, confirmations, agreements and acknowledgements of the Cornerstone Investors as contained in the Cornerstone Investment Agreements are (as of the date of the Cornerstone Investment Agreements) and will be (as of the Listing Date and, where applicable, the delivery date under the Cornerstone Investment Agreements) true, accurate and not misleading and there being no material breach of the Cornerstone Investment Agreements by the Cornerstone Investors.

RESTRICTIONS ON DISPOSAL BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has undertaken that, among other things, without the prior written consent of our Company and the Sole Sponsor, it will not, either directly or indirectly, conditionally or unconditionally, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of (as defined in the Cornerstone Investment Agreements) any of the Shares subscribed for (the “**Relevant Shares**”), or any interest in any company or entity holding any of the Relevant Shares, nor will it agree or contract to, or publicly announce any intention or enter into any such transaction described above.

CORNERSTONE INVESTORS

After the expiry of the Lock-up Period, the Cornerstone Investors may, subject to the requirements under applicable Laws, dispose of any Relevant Shares on the Stock Exchange after prior consultation with our Company, provided that (a) such disposal shall not be made to or otherwise in favour of any person whose businesses which includes businesses and other related businesses of our Group from time to time or which competes or is likely to compete with any of our businesses; and (b) the Cornerstone Investor will ensure that such disposal does not create a disorderly or false market of the Shares and is in compliance with all applicable Laws and the Listing Rules.

Unless otherwise specified, amounts denominated in JPY in this section have been translated to HK dollars, for the purpose of illustration only, at the indicative exchange rate quoted by The Hongkong and Shanghai Banking Corporation Limited of JPY100.00 to HK\$7.184 (as rounded) as at 5 September 2017.

UNDERWRITING

HONG KONG UNDERWRITERS

BOCI Asia Limited
Halcyon Securities Limited
Hong Kong Asset Management Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Global Offering comprises the Hong Kong Public Offering and the International Offering. For details of the structure of the Global Offering and reallocation, please refer to the section headed “Structure and Conditions of the Global Offering”. This prospectus is published solely in connection with the Hong Kong Public Offering.

The Hong Kong Public Offering is fully unwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement.

THE HONG KONG PUBLIC OFFERING

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and subject to the conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on the Main Board of the Stock Exchange and certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure to subscribe for their respective applicable proportions of the Hong Kong Offer Shares now being offered that have not been applied for under the Hong Kong Public Offering, on the terms and subject to the conditions of this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been executed, delivered and having become unconditional and not having been terminated.

UNDERWRITING

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor may, in their absolute discretion, terminate the Hong Kong Underwriting Agreement by notice in writing to the Company and the Controlling Shareholder, if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect:
 - (i) any event or circumstance in the nature of force majeure (including any acts of government, orders of any court, declaration of a local, regional, national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting any of the Relevant Jurisdictions; or
 - (ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in local, national, regional or international, financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or
 - (iii) any moratorium, suspension or restriction (including any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (iv) the imposition of any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or by other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC, the British Virgin Islands, the Cayman Islands, Japan, the European Union (or any member thereof), Singapore or any of the other Relevant Jurisdictions, the imposition of economic sanctions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or

UNDERWRITING

- (v) any new Laws (as defined in the Hong Kong Underwriting Agreement) or any change or any development involving a prospective change or any event or circumstance likely to result in a change in (or in the interpretation or application by any court or other competent authority of) existing Laws, in each case, in or affecting any of the Relevant Jurisdictions; or
- (vi) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including a material devaluation of the Hong Kong dollar or the Renminbi or Japanese Yen against any foreign currencies), or the implementation of any new or additional exchange control, in or affecting any of the Relevant Jurisdictions; or
- (vii) any change, or any development involving a prospective change, or any event or circumstance likely to result in a change, or a materialisation of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (viii) any litigation or claim of any third party being threatened or instigated against any member of our Group or our Controlling Shareholder or any executive Director; or
- (ix) any valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (x) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his office; or
- (xii) an authority or a political body or organisation in any Relevant Jurisdiction commencing any investigation or other action or legal proceedings, or announcing an intention to investigate or take other action or legal proceedings, against our Controlling Shareholder or any Director; or
- (xiii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of our Shares (including Shares to be allotted and issued under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xiv) a contravention by any member of our Group or any executive Director of the Listing Rules or applicable Laws; or

UNDERWRITING

- (xv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of our Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws (other than by the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters); or
- (xvi) other than with the approval of the Sole Global Coordinator and the Sole Sponsor, the issue or requirement to issue by our Company of any supplemental prospectus (or to any other documents used in connection with the contemplated offer and sale of our Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvii) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group is passed, or a provisional liquidator, receiver or manager is appointed over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and/or the Sole Sponsor (1) has or will have or may have a material adverse effect on the assets, liabilities, general affairs, business, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition (financial, trading or otherwise), earnings or expenses, liquidity, capital expenses, capital resources or performance of our Company or our Group as a whole; or (2) has or will have or may have an adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to be performed or implemented as envisaged or to deliver the Offer Shares on the terms and in the manner contemplated in this prospectus or to market the Global Offering; or (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the Hong Kong Underwriting Agreement; or

- (b) there has come to the notice of the Sole Global Coordinator and/or the Sole Sponsor:
 - (i) that any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreement) (including any supplement or amendment thereto) was, when it was published, or has become, untrue, incorrect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in the Offering Documents (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or

UNDERWRITING

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the respective dates of the publication of the Offering Documents (including any supplement or amendment thereto) constitute in the opinion of the Sole Global Coordinator, a material omission from such documents; or
- (iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
- (iv) any material adverse change in, or any development involving a prospective change that is likely to be materially adverse to, the assets, liabilities, general affairs, business, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition (financial, trading or otherwise) earnings or expenses, liquidity, capital expenses, capital resources or performance of any member of our Group; or
- (v) any event, act or omission which gives or is likely to give rise to any liability of any of our Company and our Controlling Shareholder pursuant to the indemnification provisions under the Hong Kong Underwriting Agreement; or
- (vi) any breach of, or any event or circumstance rendering untrue, incorrect or inaccurate, or misleading in any respect, any of the representations, warranties and undertakings, agreements of each of our Company or our Controlling Shareholder in the Hong Kong Underwriting Agreement; or
- (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, our Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) any person (other than the Sole Sponsor, the Sole Global Coordinator or the Underwriters) has withdrawn or sought to withdraw this prospectus (and/or any other documents issued or used in connection with the Global Offering), or its consent to being named in this prospectus or to the issue of this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (ix) any material loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person).

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For the purpose of the termination clause set forth above, the “**Relevant Jurisdictions**” refers to Hong Kong, the British Virgin Islands, the Cayman Islands, the PRC, Japan, the United States, the United Kingdom, the European Union (or any member thereof), Singapore or any jurisdiction relevant to any member of our Group or the Global Offering.

Undertakings under the Hong Kong Underwriting Agreement

(A) Undertaking by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Capitalisation Issue and the issue of any Shares pursuant to the exercise of the Pre-IPO Share Options, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months from the Listing Date (the “**First Six-Month Period**”), our Company will not, and will procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in any Shares or any other securities of our Company or any shares or any other securities of such member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any Shares or other securities of our Company or any shares or any other securities of such member of our Group, as applicable, or other interest in any of the foregoing), or deposit any Shares or other securities of our Company or any shares or other securities of such member of our Group, as applicable, with a depository in connection with the issue of depository receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any Shares or any other securities of our Company or any shares or any other securities of such member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or any other securities of such member of the Group, as applicable, or other interest in any of the foregoing); or

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- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities of our Company or any shares or any other securities of such member of our Group, or in cash or otherwise (whether or not the allotment or issue of Shares or such other securities of our Company or shares or such other securities of such member of our Group, as applicable, will be completed within the First Six-Month Period).

In the event that, at any time during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company will take all reasonable steps to ensure that such transaction, offer, agreement or announcement will not create a disorderly or false market for the Shares or any other securities of our Company. Our Controlling Shareholder has undertaken to the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and each of them to procure our Company to comply with the above undertakings.

(B) Undertaking by our Controlling Shareholder

Pursuant to the Hong Kong Underwriting Agreement, our Controlling Shareholder has undertaken to our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters and each of them that, save as pursuant to the Global Offering including pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time:

- (a) it will not during the First Six-Month Period,
 - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of our Company, or securities in any company or entity which directly or indirectly holds the Shares, or other interest in any of the foregoing), or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts, or

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- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of our Company, or any other interest in any of the foregoing), or
- (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraphs (i) or (ii) above, or
- (iv) offer to, or agree to, or announce any intention to, effect any transaction specified in sub-paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transaction is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the allotment or issue of Shares or such other securities of our Company will be completed within the First Six-Month Period);

- (b) it will not during the Second Six-Month Period, enter into any of the transactions specified in paragraphs (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transactions if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraphs (a)(i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the Shares or any other securities of our Company.

(C) Indemnity

Each of our Company and our Controlling Shareholder has jointly and severally undertaken to the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and each of them for themselves and on trust for their respective indemnified parties under the Hong Kong Underwriting Agreement, from time to time, to jointly and severally indemnify, hold harmless and keep each of the indemnified parties under the Hong Kong Underwriting Agreement fully indemnified on demand and, on an after-taxation basis, against certain proceedings and losses which they jointly or severally may suffer or incur or which may be made or threatened to be brought against them, including losses which, directly or indirectly, arise out of or are in connection with the execution, delivery or performance of their obligations and roles under the Hong Kong Underwriting Agreement and any breach by our Company or our Controlling Shareholder of the Hong Kong Underwriting Agreement.

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UNDERTAKINGS TO THE STOCK EXCHANGE UNDER THE LISTING RULES

(A) Undertaking by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) except pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option), pursuant to the exercise of Pre-IPO Share Options, or for the circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertaking by our Controlling Shareholder

Pursuant to Rule 10.07(1)(a) of the Listing Rules, our Controlling Shareholder has undertaken to the Stock Exchange and to our Company that except pursuant to the Global Offering and the Stock Borrowing Agreement, unless in compliance with the requirements of the Listing Rules, it will not (and it will procure that the relevant registered holder(s) of the Shares in which our Controlling Shareholder has a beneficial interest shall not) without the prior written consent of the Stock Exchange:

- (a) at any time during the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities in respect of which it is shown by this prospectus to be the beneficial owner; and
- (b) at any time during the period of six months from the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would then cease to be a controlling shareholder of our Company.

Note (2) of Rule 10.07(2) of the Listing Rules provides that the rule does not prevent a controlling shareholder from using our Shares owned by it as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan.

Pursuant to note (3) of Rule 10.07(2) of the Listing Rules, our Controlling Shareholder has further undertaken to the Stock Exchange and our Company that it will, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us:

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- (a) when it pledges or charges any securities of our Company beneficially owned by it in favour of any authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, and such pledge/charge together with number of securities so pledged or charged; and
- (b) when it receives indications, either verbal or written, from any pledgee or chargee that any of the securities of our Company pledged or charged will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by our Controlling Shareholder and disclose such matters by way of an announcement as soon as possible after being so informed by our Controlling Shareholder.

THE INTERNATIONAL OFFERING

In connection with the International Offering, it is expected that our Company and our Controlling Shareholder will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, it is expected that the International Underwriters would, subject to certain conditions, severally but not jointly, agree to subscribe for or purchase, or to procure subscribers to subscribe for or purchasers to purchase, their respective applicable proportions (set forth in the International Underwriting Agreement) of the International Offer Shares being offered pursuant to the International Offering.

Under the International Underwriting Agreement, our Company intends to grant to the International Underwriters the Over-allotment Option. Please refer to the section headed “Structure and Conditions of the Global Offering – the International Offering – Over-allotment Option” in this prospectus for further details.

TOTAL COMMISSIONS AND EXPENSES FOR THE GLOBAL OFFERING

Pursuant to the Hong Kong Underwriting Agreement, our Company shall pay a commission of 4.5% of the aggregate Offer Price of all the Hong Kong Offer Shares (less any unsubscribed Hong Kong Offer Shares reallocated to the International Offering and excluding any Hong Kong Offer Shares reallocated from the International Offering due to over-subscription).

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid in accordance with the Hong Kong Underwriting Agreement but will instead be paid in accordance with the International Underwriting Agreement.

We may also in our sole discretion pay the Hong Kong Underwriter(s) an additional incentive fee in aggregate of up to 1.0% of the proceeds from the Hong Kong Offer Shares.

We will bear the commission payable to the International Underwriters in relation to the International Offer Shares (other than the Sale Shares, the underwriting commission in relation to it will be borne by the Selling Shareholder). Assuming that the Offer Price is HK\$5.10 per

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Share (being the mid-point of the indicative Offer Price range) and the Over-allotment Option is not exercised, the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering payable by us are estimated to amount in aggregate to be HK\$78.5 million in total. The Selling Shareholder will also pay SFC transaction levy and Stock Exchange trading fee in respect of the Sale Shares.

HONG KONG UNDERWRITERS' INTERESTS IN OUR COMPANY

Except for their respective obligations under the Hong Kong Underwriting Agreement none of the Hong Kong Underwriters has any shareholding interests in any member of our Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group. Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set forth in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

Underwriters of the Hong Kong Public Offering and the International Offering, (together referred to as “**Syndicate Members**”), may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or the stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

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In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases. All of these activities may occur both during and after the end of the stabilising period described under the section headed “Structure and Conditions of the Global Offering – Stabilisation”. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (except for the Sole Global Coordinator and its affiliates as stabilising manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) they must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (a) the Hong Kong Public Offering of initially 9,000,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described in “– The Hong Kong Public Offering” below; and
- (b) the International Offering of initially 81,000,000 Shares (subject to reallocation and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors in Hong Kong) in offshore transactions in reliance on Regulation S as described in “– The International Offering” below.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent 25% of the issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon exercise of Pre-IPO Share Options). If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of the issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares to be issued upon exercise of Pre-IPO Share Options).

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

We are initially offering 9,000,000 Offer Shares at the Offer Price under the Hong Kong Public Offering for subscription by the public in Hong Kong (representing 10% of the total number of the Offer Shares initially available under the Global Offering). Subject to the reallocation of Offer Shares mentioned below, the Hong Kong Offer Shares will represent 2.5% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon exercise of Pre-IPO Share Options). The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong.

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and that those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools (subject to adjustment at odd lot size):

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage fee, Stock Exchange trading fee and SFC transaction levy payable) or less; and
- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee, Stock Exchange trading fee and SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that applications in pool A and pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. For the purpose of this paragraph, the “subscription price” for the Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. We will reject multiple applications between the two pools and reject multiple applications within pool A or pool B.

Reallocation

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation.

If the number of Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Offer Shares available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 27,000,000 Shares (in the case of (i)), 36,000,000 Shares (in the case of (ii)) and 45,000,000 Shares (in the case of (iii)), respectively, representing 30%, 40% and 50%, respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In addition, the Sole Global Coordinator has the discretion to reallocate our Shares offered in the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator may, in its discretion, reallocate to the International Offering all or any unsubscribed Shares offered in the Hong Kong Public Offering in such proportions as the Sole Global Coordinator deems appropriate.

Application

Multiple or suspected multiple applications, application for more than 50% of the Shares initially included in the Hong Kong Public Offering (that is, 4,500,000 Offer Shares) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up, and will not indicate an interest for or take up, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be.

Price Payable on Application

If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum Offer Price of HK\$5.60 per Offer Share plus a brokerage fee of 1.0%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%. This means that, for every board lot of 1,000 Offer Shares, you should pay HK\$5,656.43 at the time of your application.

If the Offer Price is lower than HK\$5.60, we will refund the respective difference, including brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. You may find further details in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL OFFERING

Number of Shares Initially Offered

The number of the Offer Shares to be initially offered for subscription and sale under the International Offering will be 81,000,000 Offer Shares, representing 90% of the Offer Shares initially available under the Global Offering and 22.5% of our enlarged issued share capital immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised, and without taking into account any Shares to be issued upon exercise of Pre-IPO Share Options).

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on our behalf by the International Underwriters or through selling agents appointed by them. International Offer Shares will be placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S.

Allocation of the International Offer Shares under the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its Offer Shares after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of an appropriate Shareholder base to our benefit and the benefit of our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application under the Hong Kong Public Offering.

Reallocation

The total number of International Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “-The Hong Kong Public Offering – Reallocation” in this section, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Offering.

Over-allotment Option

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by Sole Global Coordinator (on behalf of the International Underwriters) at its sole and absolute discretion at any time from the day on which trading of our Shares commences on the Stock Exchange within 30 days from the last day for lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 13,500,000 additional Shares, representing 15% of the initial number of Offer Shares, at the Offer Price to cover, among other things, over-allocations in the International Offering, if any. In the event that the Over-allotment Option is exercised, we will make an announcement.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Sole Global Coordinator may cover any over-allocations by using Shares purchased by the Stabilising Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangements mentioned below or by a combination of these means. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong, including in relation to stabilisation, the Securities and Futures (Price Stabilising) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold under the Over-allotment Option, being 13,500,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which the stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period which begins on the commencement of trading of the Shares on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. However, there is no obligation on the Stabilising Manager, or its affiliates or any person acting for it to do this. Such stabilising action, if taken, may be discontinued at any time, and must be brought to an end after a limited period. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold under the Over-allotment Option, namely 13,500,000 Shares, which is 15% of the Shares available under the Global Offering. For purposes of covering such over-allocations, the Stabilising Manager may borrow from Tsugami Japan in the aggregate up to 13,500,000 Shares, which is equivalent to the maximum number of Shares to be allotted and issued upon exercise of the Over-allotment Option in full, pursuant to the Stock Borrowing Agreement.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (a) primary stabilisation, including purchasing, or agreeing to purchase, any of the Shares or offering or attempting to do so for the purpose of preventing or minimising any reduction in the market price of the Shares, and (b) ancillary stabilisation in connection with any primary stabilising action, including: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price; (ii) selling or agreeing to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price; (iii) purchasing or agreeing to purchase Shares pursuant to

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) selling or agreeing to sell Shares to liquidate a long position held as a result of those purchases or subscriptions; and (v) offering or attempting to do anything described in (ii), (iii) or (iv). The Stabilising Manager may take any one or more of the stabilising actions described above.

Prospective applicants for and investors in the Offer Shares should note that:

- the Stabilising Manager or any person acting for it may, in connection with the stabilising action, maintain a long position in our Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilising Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of our Shares;
- no stabilising action can be taken to support the price of our Shares for longer than the stabilisation period, which will begin on the Listing Date, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure to procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilising Manager may choose to borrow up to 13,500,000 Shares from Tsugami Japan under the Stock Borrowing Agreement.

The stock borrowing arrangement will only be effected by the Stabilising Manager, its affiliates or any person acting for it for settlement of over-allocations in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

complied with. The same number of Shares so borrowed must be returned on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised; or (b) the day on which the Over-allotment Option is exercised in full. The stock borrowing arrangement will be effected in compliance with applicable laws, rules and other regulatory requirements. No payment will be made to Tsugami Japan by the Stabilising Manager in relation to the Stock Borrowing Agreement.

PRICING

We expect the Offer Price to be fixed by agreement among our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date. We expect the Price Determination Date to be on or around Friday, 15 September 2017 and in any event, no later than Friday, 22 September 2017. The Offer Price will not be more than HK\$5.60 per Offer Share and is currently expected to be not less than HK\$4.60 per Offer Share, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Prospective professional, institutional and other investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process reduce the number of Offer Shares and/or the indicative Offer Price range below that described in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice in *The Standard* (in English) and the *Hong Kong Economic Journal* (in Chinese) of the reduction in the number of Offer Shares and/or the indicative Offer Price range. Such notice will also be available at the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.tsugami.com.cn. Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon among our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) will be fixed within such revised offer price range. In this notice, we will also confirm or revise, as appropriate, the working capital statement and the offering statistics as currently disclosed in this prospectus, the use of proceeds and any other financial information which may change as a result of such reduction. If application for Hong Kong Offer Shares have been submitted before the last day for lodging applications under the Hong Kong Public Offering, such applications can subsequently be withdrawn if the number of Offer Shares and/or the Offer Price range is so reduced. If we do not publish a notice in *The Standard* (in English) and the *Hong Kong Economic Journal* (in

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Chinese) of a reduction in the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by us, will be within the indicative Offer Price range as stated in this prospectus.

If our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by Friday, 22 September 2017, the Global Offering will not proceed and will lapse.

We expect to publish an announcement of the Offer Price, together with the level of interest in the International Offering and the level of applications and the basis of allocation of the Hong Kong Offer Shares, on Friday, 22 September 2017.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters. In particular, our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters), must agree on the Offer Price on the Price Determination Date. We have entered into the Hong Kong Underwriting Agreement on 11 September 2017 and expect to enter into the International Underwriting Agreement on or around the Price Determination Date. Further details are set out in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- the Listing Committee granting the listing of and permission to deal in our Shares in issue and to be issued as described in this prospectus (including any additional Shares issuable pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options), and such listing and permission not having been subsequently revoked prior to the commencement of dealings in our Shares on the Stock Exchange;
- the Offer Price having been agreed;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The consummation of each of the International Offering and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) on the day after such lapse. In such eventuality, all application monies will be returned, to the applicants, without interest and on the terms described in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, application monies will be held in a separate bank account(s) with the receiving bank(s) or other banks licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares are expected to be despatched on or before Friday, 22 September 2017. However, these share certificates will only become valid certificates of title at 8:00 a.m. on the date of commencement of dealings in our Shares, provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificate becoming valid certificate of title do so entirely at their own risk.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 25 September 2017, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 25 September 2017. The Shares will be traded in board lots of 1,000 Shares each.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of shares in our Company and/or any of our subsidiaries;
- are a director or chief executive officer of our Company and/or any of our subsidiaries;
- are a connected person of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- are an associate of any of the above; or
- have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. to 5:00 p.m. from Tuesday, 12 September 2017 to Thursday, 14 September 2017 and between 9:00 a.m. to 12:00 noon on Friday, 15 September 2017 from:

- (i) any of the following offices of the Hong Kong Underwriters:

BOCI Asia Limited	26/F, Bank of China Tower 1 Garden Road Central Hong Kong
Halcyon Securities Limited	11/F, 8 Wyndham Street Central Hong Kong
Hong Kong Asset Management Limited	Unit 3408, 34th Floor China Resources Building 26 Harbour Road Wanchai Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) any of the following branches of the following receiving bank:

Bank of China (Hong Kong) Limited

<u>District</u>	<u>Branch</u>	<u>Address</u>
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
Kowloon	Jordan Road Branch	1/F, Sino Cheer Plaza, 23-29 Jordan Road
	Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong
	To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan
New Territories	Citywalk Branch	Shop 65, G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan
	Tai Po Branch	68-70 Po Heung Street, Tai Po Market

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 12 September 2017 until 12:00 noon on Friday, 15 September 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – PRECISION TSUGAMI PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, 12 September 2017 – 9:00 a.m. to 5:00 p.m.
Wednesday, 13 September 2017 – 9:00 a.m. to 5:00 p.m.
Thursday, 14 September 2017 – 9:00 a.m. to 5:00 p.m.
Friday, 15 September 2017 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 15 September 2017, the last application day or such later time as described in "– 10. Effect of Bad Weather on the opening of the application lists" in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Cayman Companies Law, the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Memorandum and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank(s), the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the

HOW TO APPLY FOR HONG KONG OFFER SHARES

Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by anyone as your agent or by any other person: and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for

HOW TO APPLY FOR HONG KONG OFFER SHARES

or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “– 2. Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 12 September 2017 until 11:30 a.m. on Friday, 15 September 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 15 September 2017 or such later time in “– 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

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Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

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Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage fee, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, 12 September 2017	– 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 13 September 2017	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 14 September 2017	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 15 September 2017	– 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR HONG KONG OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 12 September 2017 until 12:00 noon on Friday, 15 September 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 15 September 2017, the last application day or such later time as described in “– 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon, Friday, 15 September 2017.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company.

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage fee, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set forth in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set forth in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage fee will be paid to the Exchange Participants (as defined in the Listing Rules), and SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Global Offering – Pricing”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 15 September 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 15 September 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Friday, 22 September 2017 in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on our Company’s website at www.tsugami.com.cn and the website of the Stock Exchange at www.hkexnews.hk.

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.tsugami.com.cn and the Stock Exchange's website at www.hkexnews.hk by no later than Friday, 22 September 2017;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Friday, 22 September 2017 to 12:00 midnight on Thursday, 28 September 2017;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 22 September 2017 to Wednesday, 27 September 2017 (excluding Saturday and Sunday and Public Holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 22 September 2017 to Monday, 25 September 2017 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

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Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;

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- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$5.60 per Offer Share (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure and Conditions of the Global Offering – Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 22 September 2017.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

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No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage fee, SFC transaction levy and Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Friday, 22 September 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, 25 September 2017 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 22 September 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your

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corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Friday, 22 September 2017, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Friday, 22 September 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, 22 September 2017 or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)**

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS Investor Participant**

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "– 11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 22 September 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 22 September 2017, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, 22 September 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 22 September 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the

HOW TO APPLY FOR HONG KONG OFFER SHARES

Hong Kong Public Offering in the manner specified in “– 11. Publication of Results” above on Friday, 22 September 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 22 September 2017 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Friday, 22 September 2017. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 22 September 2017.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Directors

Precision Tsugami (China) Corporation Limited

Halcyon Capital Limited

Dear Sirs,

We report on the historical financial information of Precision Tsugami (China) Corporation Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-53, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 March 2015, 2016 and 2017 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 March 2015, 2016 and 2017 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-53 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 12 September 2017 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public

Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the financial position of the Group and the Company as at 31 March 2015, 2016 and 2017 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong
12 September 2017

HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young, Hong Kong in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

I. HISTORICAL FINANCIAL INFORMATION

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	<i>Notes</i>	Year ended 31 March		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
REVENUE	7	2,057,730	1,357,465	1,636,281
Cost of sales		(1,649,734)	(1,140,356)	(1,345,080)
GROSS PROFIT		407,996	217,109	291,201
Other income and gains	7	18,746	11,922	3,957
Selling and distribution expenses		(88,396)	(68,199)	(76,846)
Administrative expenses		(60,988)	(47,225)	(41,527)
Other expenses		(3,098)	(17,078)	(3,795)
Finance costs	9	(20,961)	(18,311)	(13,060)
PROFIT BEFORE TAX	8	253,299	78,218	159,930
Income tax expense	12	(75,004)	(22,410)	(47,364)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>178,295</u>	<u>55,808</u>	<u>112,566</u>
ATTRIBUTABLE TO:				
Owners of the parent		<u>178,295</u>	<u>55,808</u>	<u>112,566</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Consolidated Statements of Financial Position

		As at 31 March		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
	<i>Notes</i>			
NON-CURRENT ASSETS				
Property, plant and equipment	15	393,535	374,930	342,221
Prepaid land lease payments	16	35,664	34,698	33,802
Intangible assets	17	1,550	2,231	2,840
Deferred tax assets	27	7,311	5,384	5,381
		<u>438,060</u>	<u>417,243</u>	<u>384,244</u>
CURRENT ASSETS				
Inventories	19	720,581	508,136	479,875
Trade and bills receivables	20	125,583	114,050	387,295
Prepayments, deposits and other receivables	21	21,749	9,950	15,491
Pledged deposits	22	–	–	6,930
Cash and cash equivalents	22	89,091	96,093	123,903
		<u>957,004</u>	<u>728,229</u>	<u>1,013,494</u>
CURRENT LIABILITIES				
Trade and bills payables	23	314,052	123,854	358,277
Other payables and accruals	24	167,995	56,497	83,347
Tax payable		6,762	8,766	18,713
Interest-bearing bank loans and other borrowings	25	363,770	379,829	274,529
Provision	26	13,654	8,111	8,483
		<u>866,233</u>	<u>577,057</u>	<u>743,349</u>
NET CURRENT ASSETS		<u>90,771</u>	<u>151,172</u>	<u>270,145</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>528,831</u>	<u>568,415</u>	<u>654,389</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities	27	3,199	2,962	2,492
		<u>3,199</u>	<u>2,962</u>	<u>2,492</u>
Net assets		<u>525,632</u>	<u>565,453</u>	<u>651,897</u>
EQUITY				
Equity attributable to owners of the parent				
Issued capital	28	–	–	–
Reserves	29(a)	525,632	565,453	651,897
Total equity		<u>525,632</u>	<u>565,453</u>	<u>651,897</u>

Consolidated Statements of Changes in Equity

	Attributable to owners of the parent						Total RMB'000
	Issued capital	Merger reserve*	Share premium reserve*	Share option reserve*	Statutory reserve fund*	Retained profits*	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
		<i>Note 29(a)</i>	<i>Note 29(a)</i>	<i>Note 30</i>	<i>Note 29(a)</i>		
At 1 April 2014	–	(39,964)	298,745	616	30,723	19,741	309,861
Total comprehensive income for the year.	–	–	–	–	–	178,295	178,295
Issue of one share	–	–	30,661	–	–	–	30,661
Equity-settled share option arrangement	–	–	–	6,815	–	–	6,815
Transfer from retained profits . .	–	–	–	–	19,608	(19,608)	–
At 31 March 2015 and 1 April 2015	–	(39,964)	329,406	7,431	50,331	178,428	525,632
Total comprehensive income for the year.	–	–	–	–	–	55,808	55,808
Equity-settled share option arrangement	–	–	–	1,512	–	–	1,512
Dividends distribution	–	–	–	–	–	(17,499)	(17,499)
Transfer from retained profits . .	–	–	–	–	3,999	(3,999)	–
At 31 March 2016 and 1 April 2016	–	(39,964)	329,406	8,943	54,330	212,738	565,453
Total comprehensive income for the year.	–	–	–	–	–	112,566	112,566
Equity-settled share option arrangement	–	–	–	512	–	–	512
Dividends distribution	–	–	–	–	–	(26,634)	(26,634)
Transfer from retained profits . .	–	–	–	–	9,551	(9,551)	–
At 31 March 2017	–	(39,964)	329,406	9,455	63,881	289,119	651,897

* These reserve accounts comprise the consolidated reserves of RMB525,632,000, RMB565,453,000 and RMB651,897,000 in the consolidated statements of financial position as at 31 March 2015, 2016 and 2017, respectively.

Consolidated Statements of Cash Flows

		Year ended 31 March		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Notes				
CASH FLOWS FROM OPERATING ACTIVITIES				
	Profit before tax	253,299	78,218	159,930
Adjustments for:				
	Finance costs	9	20,961	18,311
	Interest income	7	(850)	(402)
	Net loss on disposal of items of property, plant and equipment	7, 8	2,431	454
	Depreciation	8	37,855	40,648
	Recognition of prepaid land lease payments	8	824	896
	Amortisation of intangible assets	8	119	165
	Equity-settled share option expenses		6,815	1,512
			321,454	139,802
	Increase in pledged deposits for bills payable		–	–
	Decrease in inventories		36,352	212,445
	Decrease/(increase) in trade and bills receivables		43,245	11,533
	Decrease/(increase) in prepayments, deposits and other receivables		24,809	11,869
	Increase/(decrease) in trade and bills payables		(118,838)	(190,198)
	Increase/(decrease) in other payables and accruals		131,166	(111,498)
	Increase/(decrease) in provision		8,264	(5,543)
	Cash generated from operations		446,452	68,410
	Income taxes paid		(71,269)	(18,716)
NET CASH FLOWS FROM OPERATING ACTIVITIES				
			375,183	49,694
				182,900

		Year ended 31 March		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
	<i>Notes</i>			
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		850	402	516
Purchases of items of property, plant and equipment		(51,462)	(23,609)	(9,785)
Proceeds from disposal of items of property, plant and equipment		7,201	1,112	109
Purchase of items of intangible assets		–	(846)	(936)
Purchase of prepaid land lease payments.		(21,688)	–	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES				
		<u>(65,099)</u>	<u>(22,941)</u>	<u>(10,096)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of one share	28	30,661	–	–
New interest-bearing bank loans and other borrowings		503,547	996,382	121,970
Repayment of interest-bearing bank loans and other borrowings		(828,510)	(982,392)	(225,064)
Dividends paid		–	(17,499)	(26,634)
Interest paid		(26,578)	(16,242)	(15,266)
NET CASH FLOWS USED IN FINANCING ACTIVITIES				
		<u>(320,880)</u>	<u>(19,751)</u>	<u>(144,994)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		<u>(10,796)</u>	<u>7,002</u>	<u>27,810</u>
Cash and cash equivalents at beginning of year		<u>99,887</u>	<u>89,091</u>	<u>96,093</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR				
		<u><u>89,091</u></u>	<u><u>96,093</u></u>	<u><u>123,903</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and cash equivalents	22	<u><u>89,091</u></u>	<u><u>96,093</u></u>	<u><u>123,903</u></u>

Statements of Financial Position

		As at 31 March		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
	<i>Notes</i>			
NON-CURRENT ASSETS				
Investment in a subsidiary	18	328,399	328,399	328,399
CURRENT ASSETS				
Prepayments, deposits and other receivables	21	2,274	979	1,768
Cash and cash equivalents	22	19,066	6,169	11,911
		<u>21,340</u>	<u>7,148</u>	<u>13,679</u>
CURRENT LIABILITIES				
Amount due to a subsidiary	33(c)	–	52	61
Other payables and accruals	24	6,311	1,278	3,094
		<u>6,311</u>	<u>1,330</u>	<u>3,155</u>
NET CURRENT ASSETS		<u>15,029</u>	<u>5,818</u>	<u>10,524</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>343,428</u>	<u>334,217</u>	<u>338,923</u>
Net assets.		<u>343,428</u>	<u>334,217</u>	<u>338,923</u>
EQUITY				
Equity attributable to owners of the parent				
Issued capital	28	–	–	–
Reserves	29(b)	343,428	334,217	338,923
Total equity.		<u>343,428</u>	<u>334,217</u>	<u>338,923</u>

II. NOTES TO HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a company incorporated in the Cayman Islands with limited liability. The registered office address of the Company is PO Box 309, Uglund House, Grand Cayman, KY 1-1104, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were involved in the following principal activities:

- manufacture and sale of high precision computer numerical control ("CNC") machine tools
- provision of commercial consultation services

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company had direct and indirect interests in the following subsidiaries, all of which are private limited liability companies in Hong Kong (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Date and place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Subsidiaries					
Precision Tsugami (Hong Kong) Limited ^{(note (a))} ("Tsugami HK")	24 September 2013 Hong Kong, China	HK\$490,718,112	100	–	Investment holding
津上精密機床(浙江)有限公司 ^{(note (b))} Precision Tsugami (China) Corporation ("PTC")	11 September 2003 Zhejiang, China	US\$43,300,000	–	100	Manufacture and sale of high precision CNC machine tools
浙江品川精密機械有限公司 ^{(note (b))} Shinagawa Precision Machinery (Zhejiang) Co., Ltd.* ("Shinagawa Precision")	24 November 2010 Zhejiang, China	RMB35,000,000	–	100	Manufacture and sale of precision machine tool castings
平湖津上諮詢有限公司 ^{(note (b))} Tsugami China Consultants Co., Limited* ("Tsugami Consultants")	18 June 2012 Zhejiang, China	RMB1,000,000	–	100	Commercial information consultation

Notes:

* The English names of the subsidiaries registered in the People's Republic of China ("PRC") represent the best efforts made by management of the Company to translate their Chinese names as these subsidiaries do not have official English names.

(a) This entity is a limited company incorporated in Hong Kong. The statutory financial statements for the period from 24 September 2013 (the date of incorporation) to 31 December 2014 and for the year ended 31 December 2015, prepared under Hong Kong generally accepted accounting principles ("HK GAAP"), were audited by NAC Pui C.P.A. & Co., Certified Public Accountants, Hong Kong.

- (b) These entities are registered as companies with limited liability under the laws of the PRC. The statutory financial statements for the years ended 31 December 2014, 2015 and 2016, prepared under PRC generally accepted accounting principles (“PRC GAAP”), were audited by Jiaxing Jiacheng Lianhe Certified Public Accountants (嘉興市嘉誠聯合會計師事務所), Certified Public Accountants registered in the PRC.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus, on 8 January 2014, the Company became the holding company of the companies now comprising the Group.

The consolidated statements of profit or loss and other comprehensive income, statements of financial position, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 March 2015, 2016 and 2017 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders’ perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from 1 April 2016, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention. The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared using consistent accounting policies with the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries set out in Note 4 below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the Historical Financial Information:

IFRS 9	<i>Financial Instruments</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁵
Amendments to IAS 12.	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ¹
Amendments to IFRS 2.	<i>Classification and Measurement of Share-based Payment Transactions</i> ²
IFRS 16	<i>Leases</i> ³
Amendments to IFRS 15.	<i>Revenue from Contracts with Customers (Clarifications to IFRS 15)</i> ²
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
Amendments to IFRS 4.	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> ²
Amendments to IAS 40.	<i>Transfers of Investment Property</i> ²
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ²
IFRS 17	<i>Insurance Contracts</i> ⁴
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ³
Amendments to IFRS 12 included in <i>Annual Improvements</i> <i>2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities</i> ¹
Amendments to IFRS 1 included in <i>Annual Improvements</i> <i>2014-2016 Cycle</i>	<i>First-time Adoption of International Financial Reporting Standards</i> ²
Amendments to IAS 28 included in <i>Annual Improvements</i> <i>2014-2016 Cycle</i>	<i>Investments in Associates or Joint Ventures</i> ²

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after 1 January 2021

⁵ No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 April 2018. The Group performed a high-level assessment of the impact of adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

Amendments to IFRS 10 and IAS 28 address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group does not plan to early adopt IFRS 15. The Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 15 on the Group. Based on the preliminary assessment, the Group expects to include more comprehensive disclosure as requested by the new standard. In addition, contract that contains two or more performance obligations would be accounted for separately and this might have an impact on pattern of revenue and profit recognition.

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendments, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of the amendments will result in additional disclosure to be provided by the Group.

The amendments IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The Group does not expect these amendments to have any material impact on the Group.

The IASB issued amendments to IFRS 2 Share-based Payment in June 2016 that address diversity in practice in three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

On adoption, entities are allowed to apply the amendments without restating prior periods, but retrospective application is permitted if entities elect to adopt all the amendments regarding the above three main areas and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement,

presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. Management is still assessing the impact on the financial performance and position of the Group resulting from the adoption of IFRS 16 for the annual period beginning on 1 April 2019. As set out in note 31 to the Historical Financial Information, the Group had total future minimum lease payments under non-cancellable operating leases as at 31 March 2017 amounted to RMB2,850,000. The Directors do not expect the adoption of IFRS16 as compared with the current accounting policy would result in a significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

IFRIC 23 was issued in June 2017. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. Management is still assessing the impact on the financial performance and position of the Group resulting from the adoption of IFRIC 23 for the annual period beginning on 1 April 2019.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The results of subsidiaries are included in the Company’s profit or loss to the extent of dividends received and receivable. The Company’s investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations for acquisition of subsidiaries other than under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree’s identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, inventories, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.50-9.00%
Plant and machinery	9.00%
Instruments and tools	18.00%
Furniture, fixtures and office equipment	18.00-30.00%
Motor vehicles	18.00-22.50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plants or machinery under construction, which are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Golf membership

Purchased membership is stated at cost less any impairment losses and assessed for impairment at each year end.

Software

Purchased software copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful life of three to five years.

Licence

Purchased licence is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. A research and development cost which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and other financial assets**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each of the Relevant Periods whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Financial liabilities***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as loans and borrowings as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables and other payables and accruals, interest-bearing bank loans and other borrowings.

Subsequent measurement

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labours and an appropriate proportion of overheads based on the normal operating capacity. Net realisable value is based on the estimated selling prices less estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income to match the grant on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, in the period in which the services are rendered; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Binomial Valuation Model, further details of which are given in note 30 to the Historical Financial Information.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 33.0% to 44.5% of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

This Historical Financial Information is presented in Renminbi ("RMB"), which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgement, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in future periods.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(ii) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. The carrying amount of property, plant and equipment carried in the consolidated statement of financial position as at 31 March 2015, 2016 and 2017 was RMB393,535,000, RMB374,930,000 and RMB342,221,000, respectively, details of which are set out in note 15 to the Historical Financial Information.

(iii) Impairment of trade receivables

The provision policy for impairment of trade receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. The carrying amount of trade receivables carried in the consolidated statement of financial position as at 31 March 2015, 2016 and 2017 was RMB91,046,000, RMB79,632,000 and RMB190,542,000 respectively, details of which are set out in note 20 to the Historical Financial Information.

(iv) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profit together with future tax planning strategies. The carrying amount of deferred tax assets carried in the consolidated statement of financial position as at 31 March 2015, 2016 and 2017 was RMB7,311,000, RMB5,384,000 and RMB5,381,000, respectively, details of which are set out in note 27 to the Historical Financial Information.

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the manufacture and sale of high precision CNC machine tools. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

The Group solely operates in Mainland China and all of the non-current assets of the Group are located in Mainland China.

Revenue information based on the locations of customers for each of the Relevant Periods is presented below:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Mainland China	1,497,319	772,882	1,041,620
Overseas	560,411	584,583	594,661
	<u>2,057,730</u>	<u>1,357,465</u>	<u>1,636,281</u>

Information about major customers

Revenue from individual customers which amounted to more than 10% of the Group's revenue of each of the Relevant Periods is set out below:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Customer A (<i>Note 33(b)</i>)	548,584	569,965	531,637

7. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold after allowances for returns, trade discounts and various types of government surcharges.

An analysis of the Group's revenue, other income and gains is as follows:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Revenue			
Sale of goods.	2,055,780	1,355,469	1,636,149
Rendering of services.	1,950	1,996	132
	<u>2,057,730</u>	<u>1,357,465</u>	<u>1,636,281</u>

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Other income and gains			
Bank interest income	850	402	516
Gain on disposal of items of property, plant and equipment	–	239	113
Government grants (note (a))	1,951	10,799	3,134
Gain on foreign exchange	15,622	–	–
Others	323	482	194
	<u>18,746</u>	<u>11,922</u>	<u>3,957</u>

Note (a) The amount represents grants received from local PRC government authorities by the Group's subsidiaries in connection with certain financial support to local business enterprises for the purpose of encouraging business development. There are no unfulfilled conditions and other contingencies relating to these grants.

8. PROFIT BEFORE TAX

The Group's profit before tax for the Relevant Periods is arrived at after charging/(crediting):

Group

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cost of inventories sold	1,649,734	1,140,356	1,345,080
Research and development expenses	10,312	8,083	4,661
Employee benefit expense (including directors' remuneration as set out in note 10):			
Wages and salaries	118,860	112,356	113,945
Pension scheme contributions	5,873	7,210	7,669
Social security contributions and accommodation benefits	8,106	9,378	9,935
Interest on interest-bearing bank loans and other borrowings and discounted bills (note 9)	20,961	18,311	13,060
Auditor's remuneration	1,285	2,020	1,694
Loss on disposal of items of property, plant and equipment	2,431	693	1,268
Depreciation (note 15)	37,855	40,648	41,230
Amortisation of prepaid land lease payments (note 16)	824	896	896
Amortisation of intangible assets (note 17)*	119	165	327
Foreign exchange loss/(gain), net	(15,622)	15,987	2,061
Minimum lease payments under operating leases	1,840	1,837	2,330
Bank interest income	(850)	(402)	(516)
	<u></u>	<u></u>	<u></u>

* The amortisation of other intangible assets for the Relevant Periods is included in "Administrative expenses" in the consolidated statements of profit or loss and other comprehensive income.

9. FINANCE COSTS

An analysis of finance costs is as follows:

Group

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Finance costs			
Interest on interest-bearing bank loans	12,928	14,423	11,418
Interest on discounted bills	3,823	3,888	1,642
Interest on interest-bearing loans from the holding company	4,210	–	–
	<u>20,961</u>	<u>18,311</u>	<u>13,060</u>

10. DIRECTORS' REMUNERATION

Mr. Takao Nishijima was appointed as a director of the Company on 2 July 2013, and was redesignated as a non-executive director of the Company on 13 May 2015. Dr. Tang Donglei, Mr. Tatsushi Hidano and Mr. Yoshimasa Hashimoto were appointed as executive directors of the Company on 13 May 2015. Ms. Mami Matsushita was appointed as a non-executive director on 13 May 2015. Dr. Ng Lai Man Carmen was appointed as an independent non-executive director of the Company on 13 May 2015, and was redesignated as a non-executive director of the Company on 12 December 2016. Dr. Huang Ping and Dr. Eiichi Koda were appointed as independent non-executive directors of the Company on 13 May 2015. Mr. Tam Kin Bor was appointed as an independent non-executive director of the Company on 12 December 2016.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of these directors as recorded in the financial statements of the Group is set out below:

Group

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Fees	219	948	1,850
<i>Other emoluments:</i>			
Salaries, allowances and benefits in kind	2,052	2,560	2,789
Equity-settled share option expense	3,666	72	66
Pension scheme contributions	–	–	–
	<u>5,937</u>	<u>3,580</u>	<u>4,705</u>

Independent Non-executive Directors

The fees paid to independent non-executive directors during the Relevant Periods were as follows:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Dr. Huang Ping	–	248	351
Dr. Ng Lai Man, Carmen	–	248	165
Dr. Eiichi Koda	–	248	351
Mr. Tam Kin Bor	–	–	117
	–	744	984

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods.

Executive Directors and Non-executive Directors

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 March 2015					
Executive Directors:					
– Dr. Tang Donglei	–	1,566	1,250	–	2,816
– Mr. Tatsushi Hidano	–	486	–	–	486
– Mr. Yoshimasa Hashimoto	–	–	72	–	72
Non-executive Directors:					
– Mr. Takao Nishijima	–	–	1,563	–	1,563
– Ms. Mami Matsushita	219	–	781	–	1,000
	219	2,052	3,666	–	5,937

Year ended 31 March 2016

Executive Directors:					
– Dr. Tang Donglei	–	1,620	–	–	1,620
– Mr. Tatsushi Hidano	–	736	–	–	736
– Mr. Yoshimasa Hashimoto	–	204	72	–	276
Non-executive Directors:					
– Mr. Takao Nishijima	–	–	–	–	–
– Ms. Mami Matsushita	204	–	–	–	204
	204	2,560	72	–	2,836

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 March 2017					
Executive directors:					
– Dr. Tang Donglei	–	1,726	–	–	1,726
– Mr. Tatsushi Hidano.	–	883	–	–	883
– Mr. Yoshimasa Hashimoto	–	180	66	–	246
Non-executive directors:					
– Mr. Takao Nishijima	–	–	–	–	–
– Ms. Mami Matsushita	216	–	–	–	216
– Dr. Ng Lai Man, Carmen	650	–	–	–	650
	<u>866</u>	<u>2,789</u>	<u>66</u>	<u>–</u>	<u>3,721</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

11. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the Group during the Relevant Periods is as follows:

	Number of employees		
	Year ended 31 March		
	2015	2016	2017
Directors	2	1	1
Non-director employees	3	4	4
	<u>5</u>	<u>5</u>	<u>5</u>

Details of directors' remuneration are set out in note 10 above.

Details of the remuneration of the above non-director, highest paid employees are as follows:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind.	2,788	3,586	3,971
Equity-settled share option expense	1,321	221	202
Pension scheme contributions	–	–	–
	<u>4,109</u>	<u>3,807</u>	<u>4,173</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 March		
	2015	2016	2017
Nil to HK\$1,000,000	–	–	–
HK\$1,000,001 to HK\$2,000,000	3	4	4
	<u>3</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, no directors or highest individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the non-director and highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

12. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in that jurisdiction.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries of the Group.

The major components of income tax expense are as follows:

Group

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current tax	75,564	20,720	46,897
Deferred tax (<i>note 27</i>)	(560)	1,690	467
Total tax charge for the year	<u>75,004</u>	<u>22,410</u>	<u>47,364</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Profit before tax	253,299	78,218	159,930
Tax at the statutory tax rate	63,325	19,555	39,982
Expenses not deductible for tax	5,899	1,245	3,352
Effect of withholding tax*	5,443	1,263	4,030
Others	337	347	–
Total tax charge at the Group's effective rate . . .	75,004	22,410	47,364

* At 10% of the distributable profit of the Group's subsidiaries established in Mainland China.

13. DIVIDENDS

The dividends declared and paid by the Company to Tsugami Corporation (the "Controlling Shareholder") during the Relevant Periods are as follows:

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Dividends to the Controlling Shareholder.	–	17,499	26,634

14. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Instruments and tools	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 31 March 2014 and							
1 April 2014	163,336	272,953	9,172	5,023	4,278	382	455,144
Additions	5,136	10,121	1,527	390	843	61,106	79,123
Transfers	57,338	4,133	–	–	–	(61,471)	–
Disposals	(340)	(13,413)	(30)	(114)	(115)	–	(14,012)
At 31 March 2015 and							
1 April 2015	225,470	273,794	10,669	5,299	5,006	17	520,255
Additions	5,026	7,097	784	364	964	9,374	23,609
Transfers	–	9,361	–	–	–	(9,361)	–
Disposals	–	(3,353)	(65)	(272)	(665)	–	(4,355)
At 31 March 2016 and							
1 April 2016	230,496	286,899	11,388	5,391	5,305	30	539,509
Additions	3,552	2,154	1,147	499	516	1,917	9,785
Transfers	–	85	–	8	–	(93)	–
Disposals	(2,517)	(1,424)	(39)	(370)	(214)	–	(4,564)
At 31 March 2017	<u>231,531</u>	<u>287,714</u>	<u>12,496</u>	<u>5,528</u>	<u>5,607</u>	<u>1,854</u>	<u>544,730</u>
Accumulated depreciation:							
At 31 March 2014 and							
1 April 2014	25,907	58,780	3,139	3,328	2,091	–	93,245
Charge for the year	10,182	24,261	1,684	830	898	–	37,855
Disposals	(3)	(4,167)	(22)	(102)	(86)	–	(4,380)
At 31 March 2015 and							
1 April 2015	36,086	78,874	4,801	4,056	2,903	–	126,720
Charge for the year	12,820	24,534	1,876	490	928	–	40,648
Disposals	(59)	(1,868)	(18)	(245)	(599)	–	(2,789)
At 31 March 2016 and							
1 April 2016	48,847	101,540	6,659	4,301	3,232	–	164,579
Charge for the year	13,079	25,071	1,924	463	693	–	41,230
Disposals	(2,163)	(595)	(35)	(333)	(174)	–	(3,300)
At 31 March 2017	<u>59,763</u>	<u>126,016</u>	<u>8,548</u>	<u>4,431</u>	<u>3,751</u>	<u>–</u>	<u>202,509</u>

	Buildings	Plant and machinery	Instruments and tools	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net carrying amount:							
At 31 March 2015	189,384	194,920	5,868	1,243	2,103	17	393,535
At 31 March 2016	181,649	185,359	4,729	1,090	2,073	30	374,930
At 31 March 2017	171,768	161,698	3,948	1,097	1,856	1,854	342,221

16. PREPAID LAND LEASE PAYMENTS

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of the year	15,627	36,491	35,595
Additions	21,688	–	–
Recognised during the year	(824)	(896)	(896)
Carrying amount at end of the year	36,491	35,595	34,699
Current portion, included in prepayments, deposits and other receivables (<i>note 21</i>)	(827)	(897)	(897)
Non-current portion	35,664	34,698	33,802

17. INTANGIBLE ASSETS

Group

	Golf membership	Software	Licence	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 31 March 2014, 1 April 2014, 31 March 2015 and 1 April 2015 . .	1,330	294	307	1,931
Additions	–	846	–	846
At 31 March 2016 and 1 April 2016 . .	1,330	1,140	307	2,777
Additions	–	936	–	936
Disposal	–	(181)	–	(181)
At 31 March 2017	1,330	1,895	307	3,532
Accumulated amortisation:				
At 31 March 2014 and 1 April 2014 . .	–	133	129	262
Amortisation	–	57	62	119
At 31 March 2015 and 1 April 2015 . .	–	190	191	381
Amortisation	–	104	61	165
At 31 March 2016 and 1 April 2016 . .	–	294	252	546
Amortisation	–	272	55	327
Disposal	–	(181)	–	(181)
At 31 March 2017	–	385	307	692
Net book value:				
At 31 March 2015	<u>1,330</u>	<u>104</u>	<u>116</u>	<u>1,550</u>
At 31 March 2016	<u>1,330</u>	<u>846</u>	<u>55</u>	<u>2,231</u>
At 31 March 2017	<u>1,330</u>	<u>1,510</u>	<u>–</u>	<u>2,840</u>

18. INVESTMENT IN A SUBSIDIARY

Company

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	328,399	328,399	328,399

The amounts due to a subsidiary included in the Company's current liabilities were nil, RMB52,000 and RMB61,000 as at 31 March 2015, 2016 and 2017, respectively. They were unsecured, interest-free and had no fixed terms of repayment.

19. INVENTORIES

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Raw materials	326,045	215,912	193,205
Work in progress	205,550	144,266	164,687
Finished goods	188,986	147,958	121,983
	720,581	508,136	479,875

20. TRADE AND BILLS RECEIVABLES

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables*.	91,046	79,632	190,542
Bills receivable	34,537	34,418	196,753
	125,583	114,050	387,295

* Trade receivables include trade receivables from the Controlling Shareholder and other related party (note 33).

Customers are usually required to make payment in advance before the Group delivers goods to them. However, the Group's trading terms with certain major customers with good repayment history and high reputations are on credit. The credit period is generally one to six months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimise credit risk.

Trade receivables are unsecured and non-interest-bearing.

Ageing analysis by invoice date

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of provisions, is as follows:

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 3 months	57,903	75,654	169,239
3 months to 6 months.	31,643	3,978	21,303
6 months to 1 year	1,500	–	–
	<u>91,046</u>	<u>79,632</u>	<u>190,542</u>

Trade receivables not individually nor collectively impaired

An ageing analysis of the trade receivables that are not considered to be individually nor collectively impaired is as follows:

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired.	89,546	79,632	190,266
Past due but not impaired	1,500	–	276
	<u>91,046</u>	<u>79,632</u>	<u>190,542</u>

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at the end of each reporting period, none of the bills receivable is either past due or impaired. The financial assets included in the above balances relate to bills receivable for which there was no recent history of default.

Discounted bills receivable that are not derecognised in their entirety

At 31 March 2015, 2016 and 2017, the Group discounted certain bills receivable with recourse accepted by certain banks in Mainland China (the “Recognised Bills”) with a carrying amount of RMB9,520,000, RMB25,212,000 and RMB17,498,000 (the “Discount”), respectively. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Recognised Bills have a right of recourse against the Group if the PRC banks default. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Recognised Bills, and accordingly, it continued to recognise the full carrying amounts of the Recognised Bills. The proceeds from the Discount are recorded as interest-bearing bank loans and other borrowings.

Discounted bills receivable that are derecognised in their entirety

At 31 March 2015, 2016 and 2017, the Group discounted certain bills receivable with recourse accepted by certain banks in Mainland China (the "Derecognised Bills") with a carrying amount of RMB60,300,000, RMB87,348,000 and RMB22,287,000 respectively. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The Derecognised Bills were honoured by reputable banks in the PRC, such as Bank of China, China Construction Bank, Agricultural Bank of China, Industrial and Commercial Bank of China and other reputable listed banks rating at AAA by national credit rating agencies. In the opinion of the directors, these banks have good reputation and credit quality, and the risk of default of these bills receivable on maturity is remote, and therefore, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills, and accordingly, it has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the Relevant Periods, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the Relevant Periods or cumulatively. The transfer has been made evenly throughout the Relevant Periods.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**Group**

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepayments	10,447	7,204	11,959
Current portion of prepaid land lease payments (<i>note 16</i>)	827	897	897
Deposits and other receivables	10,475	1,849	2,635
	<u>21,749</u>	<u>9,950</u>	<u>15,491</u>

Company

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepayments, deposits and other receivables	2,274	979	1,768

Prepayments, deposits and other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cash and bank balances	89,091	96,093	130,833
Less: Pledged deposits for bills payable	–	–	(6,930)
Cash and cash equivalents	<u>89,091</u>	<u>96,093</u>	<u>123,903</u>
Denominated in RMB	65,056	88,556	97,788
Denominated in JPY	4,205	720	20,118
Denominated in US\$	5	1	1
Denominated in HK\$	19,825	6,816	12,926
Cash and cash equivalents and pledged deposits	<u>89,091</u>	<u>96,093</u>	<u>130,833</u>

Company

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cash and bank balances	19,066	6,169	11,911
Cash and cash equivalents	<u>19,066</u>	<u>6,169</u>	<u>11,911</u>
Denominated in HK\$	<u>19,066</u>	<u>6,169</u>	<u>11,911</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. TRADE AND BILLS PAYABLES

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade payables*	314,052	122,697	289,437
Bills payable	–	1,157	68,840
	<u>314,052</u>	<u>123,854</u>	<u>358,277</u>

* Trade payables include trade payables to the Controlling Shareholder (note 33).

An ageing analysis of the outstanding trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Less than 3 months	244,769	122,371	289,437
3 to 6 months	69,283	326	–
	<u>314,052</u>	<u>122,697</u>	<u>289,437</u>

Trade payables are non-interest-bearing, and trade payables to third parties are normally settled within 90 days.

24. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Payroll and welfare accruals	12,604	12,130	13,656
Accruals	14,109	8,559	9,906
Other payables	11,951	18,293	11,154
Advances from customers*	129,331	17,515	48,631
	<u>167,995</u>	<u>56,497</u>	<u>83,347</u>

* Advances from customers include advances from the Controlling Shareholder (note 33).

Company

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Other payables	<u>6,311</u>	<u>1,278</u>	<u>3,094</u>

Other payables are unsecured, non-interest-bearing and repayable on demand.

25. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current			
Discounted bills with recourse	9,520	25,212	17,498
Bank loans, unsecured	354,250	354,617	257,031
	<u>363,770</u>	<u>379,829</u>	<u>274,529</u>
Bank loans and other borrowings bear interest at rates per annum in the range of	1.66%-5.60%	1.66%-5.60%	2.10%-4.39%
Repayable within one year or on demand.	<u>363,770</u>	<u>379,829</u>	<u>274,529</u>

26. PROVISION

	Product warranties
	RMB'000
At 31 March 2014 and 1 April 2014.	<u>5,390</u>
Additional provision charged to profit or loss during the year	20,503
Amounts utilised during the year.	<u>(12,239)</u>
At 31 March 2015 and 1 April 2015.	<u>13,654</u>
Additional provision charged to profit or loss during the year	2,085
Amounts utilised during the year.	<u>(7,628)</u>
At 31 March 2016 and 1 April 2016.	<u>8,111</u>
Additional provision charged to profit or loss during the year	10,662
Amounts utilised during the year.	<u>(10,290)</u>
At 31 March 2017.	<u>8,483</u>

The Group mainly provides one year warranties to its customers on certain of its precision CNC machine tools, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

27. DEFERRED TAX

The following are the deferred tax assets and deferred tax liabilities recognised and the movements therein during the Relevant Periods:

Group

Deferred tax assets	Accruals	Inventory provision	Total
	RMB'000	RMB'000	RMB'000
Deferred tax assets at 31 March 2014 and 1 April 2014.	2,668	1,640	4,308
Deferred tax credited to profit or loss during the year	2,680	323	3,003
Deferred tax assets at 31 March 2015 and 1 April 2015.	5,348	1,963	7,311
Deferred tax charged to profit or loss during the year	(1,617)	(310)	(1,927)
Deferred tax assets at 31 March 2016 and 1 April 2016.	3,731	1,653	5,384
Deferred tax credited/(charged) to profit or loss during the year	(73)	70	(3)
Deferred tax assets at 31 March 2017.	<u>3,658</u>	<u>1,723</u>	<u>5,381</u>
Deferred tax liabilities			Withholding tax
			RMB'000
Deferred tax liabilities at 31 March 2014 and 1 April 2014			756
Deferred tax charged to profit or loss during the year			2,443
Deferred tax liabilities at 31 March 2015 and 1 April 2015			3,199
Deferred tax credited to profit or loss during the year.			(237)
Deferred tax liabilities at 31 March 2016 and 1 April 2016			2,962
Deferred tax credited to profit or loss during the year.			(470)
Deferred tax liabilities at 31 March 2017.			<u>2,492</u>

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB144,800,000, RMB174,359,000 and RMB268,137,000 at 31 March 2015, 2016 and 2017, respectively. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

28. ISSUED CAPITAL**Shares**

	As at 31 March		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Authorised: 15,000,000 ordinary shares of HK\$1.00 each	15,000	15,000	15,000
	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>
	As at 31 March		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Issued and fully paid: 3 ordinary shares of HK\$1.00 each	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

The Company was incorporated in the Cayman Islands as a company with limited liability on 2 July 2013 with an authorised share capital of HK\$350,000 divided in 350,000 shares of HK\$1.00 par value each. On 2 July 2013, the initial member transferred the one issued share of HK\$1.00 in the Company to the Controlling Shareholder.

By an equity transfer agreement entered into between the Controlling Shareholder and the Company dated 12 December 2013, the entire equity interest in PTC was transferred by the Controlling Shareholder, which was settled by the Company issuing one share to the Controlling Shareholder.

On 14 March 2014, the Company increased the authorised share capital to HK\$15,000,000 divided into 15,000,000 shares of HK\$1.00 par value each.

On 15 May 2014, one share was allotted and issued to the Controlling Shareholder in consideration of RMB30,661,000 (US\$5,000,000) paid by the Controlling Shareholder.

29. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Historical Financial Information.

Merger reserve

The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation as mentioned in note 2.1 to the Historical Financial Information.

Share premium reserve

The Company's share premium reserve represents the excess of the paid-in capital over the nominal value of the Company's shares issued in exchange therefor.

Statutory reserve fund

In accordance with the relevant PRC regulations applicable to wholly-foreign-owned companies, certain entities within the Group are required to allocate certain portion (not less than 10%), as determined by their boards of directors, of their profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of the registered capital.

The SRF is non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as issued capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

(b) Company

	Share premium reserve	Share option reserve	Retained profits/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 March 2014 and 1 April 2014	298,745	616	(993)	298,368
Issue of one share	30,661	–	–	30,661
Total comprehensive income for the year	–	–	7,584	7,584
Equity-settled share option arrangement	–	6,815	–	6,815
At 31 March 2015 and 1 April 2015	329,406	7,431	6,591	343,428
Total comprehensive income for the year	–	–	6,776	6,776
Dividends distribution	–	–	(17,499)	(17,499)
Equity-settled share option arrangement	–	1,512	–	1,512
At 31 March 2016 and 1 April 2016	329,406	8,943	(4,132)	334,217
Total comprehensive income for the year	–	–	30,828	30,828
Dividends distribution	–	–	(26,634)	(26,634)
Equity-settled share option arrangement	–	512	–	512
At 31 March 2017	<u>329,406</u>	<u>9,455</u>	<u>62</u>	<u>338,923</u>

30. SHARE OPTION SCHEME

Pre-IPO stock plan

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include two groups. Group A consists of a maximum of 15 directors or chief executives, including independent non-executive directors in the Company and the Company’s subsidiaries. Group B consists of a maximum of 50 full-time employees in the Company and the Company’s subsidiaries designated by directors. The Scheme became effective on 14 March 2014 and, unless otherwise cancelled or amended by directors, under which case no share option will be granted, will remain in force for 10 years from that date.

The following share options were outstanding under the Scheme during the Relevant Periods.

	Year ended 31 March					
	2015		2016		2017	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	HK\$ per share	'000	HK\$ per share	'000	HK\$ per share	'000
At beginning of the year	1.5	8,626	1.5	8,626	1.5	8,626
Forfeited during the year		—		—		(756)
At end of the year	1.5	<u>8,626</u>	1.5	<u>8,626</u>	1.5	<u>7,870</u>

The exercise prices and exercise periods of the share options outstanding as at the end of each reporting period are as follows:

For the years ended 31 March 2015 and 2016

	Number of options	Exercise price*	Exercise period
	'000	HK\$ per share	
Group A	4,845	1.5	17 March 2015 to 16 March 2020
Group B	<u>3,781</u>	1.5	17 March 2017 to 16 March 2020
	<u>8,626</u>		

For the years ended 31 March 2017

	Number of options	Exercise price*	Exercise period
	'000	HK\$ per share	
Group A	4,845	1.5	17 March 2015 to 16 March 2020
Group B	<u>3,025</u>	1.5	17 March 2017 to 16 March 2020
	<u>7,870</u>		

The fair value of the share options granted during the year ended 31 March 2014 for Group A was HK\$7,509,750 (HK\$1.55 each), and for Group B was HK\$5,444,640 (HK\$1.44 each). The total fair values amounted to HK\$12,954,390, of which the Group recognised a share option expense of RMB6,815,000, RMB1,512,000 and RMB512,000, respectively, during the years ended 31 March 2015, 2016 and 2017.

The fair value of equity-settled share options granted during the Relevant Periods was estimated as at the date of grant, using a Binomial Valuation Model, taking into account the terms and conditions upon which the options were granted. The following table lists the key inputs to the model used:

Expected dividend yield (%)	5.74%
Expected volatility (%)	49.296%
Risk-free interest rate (%)	1.432%

No share options were exercised during the Relevant Periods. As at 31 March 2017, the Company had 7,870,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,870,000 additional shares of the Company and additional share capital and share premium of HK\$11,805,000.

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to five years. At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within one year	1,579	907	1,643
In the second to fifth years, inclusive	141	149	1,207
	<u>1,720</u>	<u>1,056</u>	<u>2,850</u>

32. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Land and buildings	<u>5,500</u>	<u>2,650</u>	<u>2,520</u>

33. RELATED PARTY TRANSACTIONS

(a) Name and relationship

<u>Name of related party</u>	<u>Relationship with the Group</u>
Tsugami Corporation	The Controlling Shareholder
Tsugami Korea Co., Ltd.	Company controlled by the Controlling Shareholder
Tsugami Machinery K.K.	Company controlled by the Controlling Shareholder
Tsugami Thailand Co., Ltd.	Company controlled by the Controlling Shareholder

- (b) Apart from the transactions and balances disclosed elsewhere in the Historical Financial Information, the Group had the following material transactions with related parties during the Relevant Periods:

		Year ended 31 March		
		2015	2016	2017
Notes		RMB'000	RMB'000	RMB'000
<u>Sales of goods to</u>				
	Tsugami Corporation (<i>Note 6</i>)	548,584	569,965	531,637
	Tsugami Korea Co., Ltd.	9,483	14,253	16,693
	Tsugami Thailand Co., Ltd.	1,036	–	–
	Tsugami Machinery K.K.	108	4	–
		<u>559,211</u>	<u>584,222</u>	<u>548,330</u>
<u>Purchases of materials from</u>				
	Tsugami Corporation	<u>508,705</u>	<u>244,082</u>	<u>319,779</u>
<u>Licence fee to</u>				
	Tsugami Corporation	<u>93,721</u>	<u>58,764</u>	<u>74,110</u>
<u>Service fee to</u>				
	Tsugami Corporation	<u>5,357</u>	<u>12,994</u>	<u>16,536</u>
<u>Interest on interest-bearing loans</u>				
	Tsugami Corporation	<u>4,210</u>	<u>–</u>	<u>–</u>
<u>Loan from</u>				
	Tsugami Corporation	<u>181,804</u>	<u>–</u>	<u>–</u>
<u>Loan repayment to</u>				
	Tsugami Corporation	<u>495,577</u>	<u>–</u>	<u>–</u>

Notes:

- (i) The sales to and purchases from related parties were made and the licence fee and service fee were paid to related parties according to prices mutually agreed after taking into account the prevailing market prices.
- (ii) The loans from the related party were unsecured and subject to an annual interest rate of 2%.

(c) Outstanding balances with related parties

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<u>Amount due from the Controlling Shareholder</u>			
Tsugami Corporation			
Trade receivables	–	33,480	53,397
	<u>–</u>	<u>33,480</u>	<u>53,397</u>
<u>Amount due from a company controlled by the Controlling Shareholder</u>			
Tsugami Korea Co., Ltd.			
Trade receivables	16	217	4,163
	<u>16</u>	<u>217</u>	<u>4,163</u>
<u>Amounts due to the Controlling Shareholder</u>			
Tsugami Corporation			
Trade payables	162,637	46,786	87,248
Advances from customers	105,620	–	–
	<u>268,257</u>	<u>46,786</u>	<u>87,248</u>

Company

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<u>Amount due to a subsidiary</u>			
PTC	–	52	61
	<u>–</u>	<u>52</u>	<u>61</u>

The amounts due from/to related companies are interest-free, unsecured and repayable on demand.

(d) Compensation of key management personnel

Group

	Year ended 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Fees	–	–	–
<i>Other emoluments:</i>			
Salaries, allowances and benefits in kind	2,554	3,446	3,978
Equity-settled share option expense	1,394	144	132
Pension scheme contributions	–	–	–
	<u>3,948</u>	<u>3,590</u>	<u>4,110</u>

Further details of directors' emoluments are included in note 10 to the Historical Financial Information.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The table below is an analysis of the carrying amounts of financial instruments by category as at the end of each of the Relevant Periods:

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<i>Financial assets</i>			
Loans and receivables			
Trade and bills receivables	125,583	114,050	387,295
Financial assets included in prepayments, deposits and other receivables.	10,475	1,849	2,635
Pledged deposits	–	–	6,930
Cash and cash equivalents	89,091	96,093	123,903
	<u>225,149</u>	<u>211,992</u>	<u>520,763</u>
<i>Financial liabilities</i>			
Financial liabilities measured at amortised cost			
Trade and bills payables	314,052	123,854	358,277
Financial liabilities included in other payables and accruals.	11,951	18,293	11,154
Interest-bearing bank loans and other borrowings. . .	363,770	379,829	274,529
	<u>689,773</u>	<u>521,976</u>	<u>643,960</u>

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, deposits, and other receivables, trade and bills payables, financial liabilities included in other payables and accruals and interest-bearing bank loans and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of each of the Relevant Periods, the finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, other interest-bearing loans, and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the Relevant Periods under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The boards of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank loans and other borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

Group

	Increase/(decrease) on profit before tax		
	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Increase by 100 basis points	(3,065)	(3,003)	(2,570)
Decrease by 100 basis points	3,065	3,003	2,570

Foreign currency risk

The Group has transactional currency exposures. Such exposures mainly arise from sales, purchases or borrowings by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the foreign exchange rates due to changes in fair value of monetary assets and liabilities, with all other variables held constant, of the Group's profit before tax.

	Change in foreign	Increase/(decrease)
	currency rate	in profit before tax
	%	RMB'000
31 March 2015		
If RMB weakens against JPY	5%	(6,195)
If RMB strengthens against JPY	5%	6,195
If RMB weakens against US\$	5%	(10,312)
If RMB strengthens against US\$	5%	10,312
31 March 2016		
If RMB weakens against JPY	5%	1,184
If RMB strengthens against JPY	5%	(1,184)
If RMB weakens against US\$	5%	(8,368)
If RMB strengthens against US\$	5%	8,368
31 March 2017		
If RMB weakens against JPY	5%	1,005
If RMB strengthens against JPY	5%	(1,005)
If RMB weakens against US\$	5%	(103)
If RMB strengthens against US\$	5%	103

Credit risk

The Group trades only with related parties and recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Concentrations of credit risk are managed by customer. At the end of each of the Relevant Periods, the Group had certain concentrations of credit risk as 46.7%, 49.9% and 43.5% of the Group's trade receivables were due from the Group's Controlling Shareholder and the largest third-party customer as at 31 March 2015, 2016 and 2017, respectively.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Group

	<u>On demand</u>	<u>Within 1 year</u>	<u>Within 2 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 March 2015					
Trade and bills payables . . .	–	314,052	–	–	314,052
Financial liabilities included in other payables and accruals . . .	11,951	–	–	–	11,951
Interest-bearing bank loans and other borrowings. . .	–	364,856	–	–	364,856
	<u>11,951</u>	<u>678,908</u>	<u>–</u>	<u>–</u>	<u>690,859</u>
31 March 2016					
Trade and bills payables . . .	–	123,854	–	–	123,854
Financial liabilities included in other payables and accruals . . .	18,293	–	–	–	18,293
Interest-bearing bank loans and other borrowings. . .	–	386,118	–	–	386,118
	<u>18,293</u>	<u>509,972</u>	<u>–</u>	<u>–</u>	<u>528,265</u>
31 March 2017					
Trade and bills payables . . .	–	358,277	–	–	358,277
Financial liabilities included in other payables and accruals . . .	11,154	–	–	–	11,154
Interest-bearing bank loans and other borrowings. . .	–	277,355	–	–	277,355
	<u>11,154</u>	<u>635,632</u>	<u>–</u>	<u>–</u>	<u>646,786</u>

Company

	<u>On demand</u>	<u>Within 1 year</u>	<u>Within 2 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
31 March 2015					
Other payables and accruals	6,311	–	–	–	6,311
31 March 2016					
Amounts due to a subsidiary	52	–	–	–	52
Other payables and accruals	1,278	–	–	–	1,278
	<u>1,330</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,330</u>
31 March 2017					
Amount due to a subsidiary	61	–	–	–	61
Other payables and accruals	3,094	–	–	–	3,094
	<u>3,155</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,155</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a net debt to equity ratio. The Group's net debt consists of interest-bearing bank loans and other borrowings less cash and cash equivalents. Capital represents total equity.

During the Relevant Periods, the Group's strategy was to maintain the net debt to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The net debt to equity ratios at the end of each of the Relevant Periods are as follows:

Group

	As at 31 March		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Interest-bearing bank loans and other borrowings. . .	363,770	379,829	274,529
Less: Cash and cash equivalents	(89,091)	(96,093)	(123,903)
Net debt	<u>274,679</u>	<u>283,736</u>	<u>150,626</u>
Total equity	<u>525,632</u>	<u>565,453</u>	<u>651,897</u>
Net debt to equity ratio	<u>52.26%</u>	<u>50.18%</u>	<u>23.11%</u>

37. EVENTS AFTER THE REPORTING PERIOD

The Company declared dividends of HK\$16 million to the Controlling Shareholder on 25 May 2017 and the payment has been made on 12 June 2017.

Pursuant to a resolution passed by the sole shareholder of the Company on 4 September 2017, the authorised share capital of the Company was approved to increase from HK\$15,000,000 divided into 15,000,000 Share of HK\$1.00 each to HK\$1,000,000,000 divided into 1,000,000,000 Shares of HK\$1.00 each by the creation of an additional 985,000,000 Shares of HK\$1.00 each, each rank par passu in all respects with shares in issue as at the date passing of the resolution. Conditional on the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the allotment and issue of the shares by the Company pursuant to the global offering, the Directors were authorised to capitalise approximately HK\$299,999,997 standing to the credit of the share premium account of the Company by applying such sum in paying up in full 299,999,997 shares at par, for allotment and issue to the sole shareholder.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 March 2017.

This information set forth in this this Appendix II does not form part of the accountants' report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF THE GROUP

For illustrative purposes only, the following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared to show the effect on the consolidated net tangible assets of the Group as at 31 March 2017 as if the Global Offering had occurred on 31 March 2017, as set out in Appendix I to this prospectus and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 31 March 2017 or any future dates.

	Consolidated net tangible assets of our Group attributable to equity holders of our Company as at 31 March 2017 <i>(Note 1)</i>	Estimated net proceeds from the Global Offering <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	<i>(Note 3)</i> RMB	<i>(Note 4)</i> HK\$
Based on the minimum indicative Offer Price of HK\$4.60 per Share	649,057	205,847	854,904	2.37	2.68
Based on the maximum indicative Offer Price of HK\$5.60 per Share	649,057	256,020	905,077	2.51	2.84

Notes:

1. The consolidated net tangible assets attributable to owners of the Company as at 31 March 2017 is arrived at after deducting the intangible assets of RMB2,840,000 from the audited consolidated equity attributable to owners of the Company of RMB651,897,000 as at 31 March 2017, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus.
2. The estimate net proceeds from the Global Offering are based on the maximum and minimum indicative Offer Price of HK\$5.60 and HK\$4.60, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and 60,000,000 Shares expected to be issued under the Global Offering, taking no account of any Shares which may be issued upon the exercise of the Pre-IPO Share Options and the Over-allotment Option.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to above and on the basis of 360,000,000 Shares (after considering the expected new shares issued upon the Capitalisation Issue and the Global Offering) in issue, and taking no account of any Shares which may be issued upon the exercise of the Pre-IPO Share Options and the Over-allotment Option.
4. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK\$1.13.
5. The unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company does not take into account a cash dividend of HK\$16,000,000 to the Controlling Shareholder approved by the Board of Directors on 25 May 2017. The cash dividend was paid on 12 June 2017. Had the cash dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company per share would be HK\$2.64 per share (based on the Offer Price of HK\$4.60 per Offer Share) or HK\$2.80 per share (based on the Offer Price of HK\$5.60 per Offer Share).
6. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2017.

B. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

12 September 2017

To the Directors of Precision Tsugami (China) Corporation Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Precision Tsugami (China) Corporation Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information (the “Pro Forma Financial Information”) consists of the pro forma consolidated net tangible assets as at 31 March 2017 and related notes as set out in page II-1 to II-2 of Appendix II to the prospectus dated 12 September 2017 issued by the Company (the “Prospectus”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in notes on pages II-1 to II-2 of Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 31 March 2017 as if the transaction had taken place at 31 March 2017. As part of this process, information about the Group’s financial position, has been extracted by the Directors from the Group’s financial statements for the year ended 31 March 2017, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this prospectus and received from DTZ Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of value of the property of the Group as at 30 June 2017.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong
12 September 2017

The Directors
Precision Tsugami (China) Corporation Limited
PO Box 309, Uglan House
Grand Cayman, KY1-1104
Cayman Islands

Dear Sirs,

INSTRUCTIONS, PURPOSE AND DATE OF VALUATION

In accordance with the instructions from Precision Tsugami (China) Corporation Limited (the “**Company**”) for us to value the property in which Precision Tsugami (China) Corporation Limited and its subsidiaries (hereinafter together referred to as the “**Group**”) have interests in the People’s Republic of China (the “**PRC**”) (as more particularly described in the attached valuation certificate), we confirm that we have inspected the property, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of such property as at 30 June 2017.

BASIS OF VALUATION

Our valuation of the property represents its market value which in accordance with The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION BASIS AND ASSUMPTIONS

In valuing the property, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities published by The Stock Exchange of the Hong Kong Limited and The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors.

Our valuation excludes any estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the property in the PRC, we have assumed that, unless otherwise stated, the transferable land use rights in respect of the property for a specific term at nominal annual land use fee has been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Group and the PRC Legal Advisers regarding the title to the property and the interests of the Group in the property. In valuing the property, we have assumed that the Group has an enforceable title to the property and has free and uninterrupted rights to use, occupy or assign the property for the whole of the respective unexpired land use term as granted.

In respect of the property situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Group are set out in the notes of the valuation certificate.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

METHOD OF VALUATION

Due to the specific nature of the property and lack of sales transactions of properties of the same characteristics in the vicinity, we have adopted the Depreciated Replacement Costs (“DRC”) Approach. The DRC Approach is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimisation. For the land portion, we have made reference to comparable land sales evidence as available in the relevant market. The DRC Approach is subject to service potential of the entity from the use of assets as a whole.

The market value arrived using the DRC Approach applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

SOURCES OF INFORMATION

We have been provided by the Group with extracts of documents in relation to the titles to the property. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and the PRC Legal Advisers, Grandall Law Firm (Shanghai) regarding the title to the property and the interests of the Group in the property. In

respect of the property in the PRC, we have accepted advice given by the Group on such matters as planning approvals or statutory notices, easements, tenure, identification of land and buildings, completion date of buildings, number of car parking spaces, particulars of occupancy, site and floor areas, interest attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided.

TITLE INVESTIGATION

We have been provided with extracts of documents relating to the title of the property in the PRC, but no searches have been made in respect of the property. We have not searched the original documents to verify ownership or to ascertain any amendment which may not appear on the copies handed to us. We are also unable to ascertain the title of the property in the PRC and we have therefore relied on the advice given by the Group and the Company's Legal Adviser regarding the Group's interests in the PRC property.

SITE INSPECTION

Leo Li, who is a registered member of CREA and the Manager of DTZ Cushman & Wakefield Limited Hangzhou Office with 8 years of experience in property valuation in the PRC, inspected the exterior and, wherever possible, the interior of the property on 12 January 2017. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out on-site measurements to verify the site and floor areas of the property and we have assumed that the areas shown on the documents handed to us are correct.

CURRENCY

Unless otherwise stated, all monetary sums stated in our valuation are in Renminbi ("RMB"), the official currency of the PRC.

We enclose herewith and our valuation certificate.

Yours faithfully,

for and on behalf of

DTZ Cushman & Wakefield Limited

Andrew K.F. Chan

MSc, MHKIS, MRICS, MCIREA, RPS(GP)

Regional Director, Valuation & Advisory Services, Greater China

Note: Mr. Andrew K.F. Chan is a Registered Professional Surveyor who has over 30 years' experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property held by the Group for owner-occupation in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2017
<p>An industrial complex situated at Nos. 2001, 2008 and 2088 Pingcheng Road, Pinghu Economic Development Zone, Pinghu, Zhejiang Province, the PRC (中華人民共和國浙江省平湖市平湖經濟開發區平成路2001號, 2008號及2088號工業廠房)</p>	<p>The property comprises an industrial complex erected on 7 parcels of contiguous land plots with a total site area of 141,921.40 sq. m.</p> <p>The property is situated in Pinghu Economic Development Zone. It is located at the intersection of Xingping San Road (興平三路) and Pingcheng Road (平成路). Developments in the vicinity comprise mainly industrial buildings such as Totoku Factory (東特有限公司廠區), Nidec Sankyo Factory (日本電產三協廠區) and Nidec Tosok Factory (日本電產東測廠區) etc. The property is served by public bus routes.</p> <p>The industrial complex comprises various buildings including workshops, offices, warehouses dormitories and ancillary facilities. They were completed in between 2004 and 2014.</p> <p>The property has a total gross floor area of 89,417.02 sq. m. (Please see note (3)).</p> <p>The land use rights of the property have been granted for various terms with the latest expiry on 16 September 2064 for industrial use.</p>	<p>As at the valuation date, the property was owner-occupied.</p>	<p>RMB238,450,000 (100% interest attributable to the Group: RMB238,450,000)</p>

Notes:

- (1) According to 7 State-owned Land Use Rights Certificates issued by the People's Government of Pinghu, the land use rights of the property with a total site area of 141,921.40 sq. m. have been vested in the Group with details as follows:

<u>Certificate No.</u>	<u>Location</u>	<u>Planned Use</u>	<u>Site Area</u> <u>(sq. m.)</u>	<u>Issue Date</u>	<u>Land Use Term</u> <u>Expiry Date</u>	<u>Land Use</u> <u>Rights Owner</u>
(2015) 01943 . .	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial	31,190.10	16 April 2015	28 December 2053	津上精密機床(浙江)有限公司
(2012) 02312 . .	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial	4,812.00	28 June 2012	15 April 2060	津上精密機床(浙江)有限公司
(2015) 01910 . .	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial	6,660.90	16 April 2015	8 June 2061	津上精密機床(浙江)有限公司
(2015) 01795 . .	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial	10,527.50	9 April 2015	16 September 2064	津上精密機床(浙江)有限公司
(2013) 02053 . .	No. 2088 Pingcheng Road, Pinghu Economic Development Zone	Industrial	15,996.50	27 March 2013	17 November 2060	浙江品川精密機械有限公司
(2015) 01924 . .	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial	26,067.70	16 April 2015	18 May 2055	津上精密機床(浙江)有限公司
(2014) 05064 . .	No. 2008 Pingcheng Road, Pinghu Economic Development Zone	Industrial	46,666.70	30 June 2014	25 April 2053	津上精密機床(浙江)有限公司
Total:			141,921.40			

APPENDIX III

PROPERTY VALUATION

(2) According to various Grant Contracts of Land Use Rights and Transfer Contracts of Land Use Rights, the land use rights of the 7 parcels of land with a total site area of 141,921.40 sq. m. were contracted to be granted to the Group for industrial use with details as follows:

Contract No.	Nature of Contract	Location	Vendor	Purchaser	Land Use	Date of Contract	Site Area (sq. m.)	Plot Ratio	Land
									Premium/ Consideration (RMB)
GF-2000-2601	Grant Contract	South of Pingcheng Road, east of Xingping San Road, Pinghu Economic Development Zone	Zhejiang Province Pinghu Land Resources Bureau	津上精密機床(浙江)有限公司	Industrial	29 December 2003	31,190.10	≤0.80	5,177,557
3304822010 A21030 and 20101	Grant Contract and Agreement on Resumption	East of Xingping San Road, south of Pingcheng Road, Pinghu Economic Development Zone	Zhejiang Province Pinghu Land Resources Bureau	津上精密機床(浙江)有限公司	Industrial	11 March 2010	4,812.00 (Please see note (a))	≥1.00	982,758 (Please see note (a))
3304822011 A21065	Grant Contract	East of Xingping San Road, south of Pingcheng Road, Pinghu Economic Development Zone	Zhejiang Province Pinghu Land Resources Bureau	津上精密機床(浙江)有限公司	Industrial	9 May 2011	6,660.90	≥1.00	2,000,000
3304822014 A21087	Grant Contract	South of Pingcheng Road, east of Xingping San Road, Pinghu Economic Development Zone	Zhejiang Province Pinghu Land Resources Bureau	津上精密機床(浙江)有限公司	Industrial	24 August 2014	10,527.50	≥1.10	3,780,000
N/A	Transfer Contract	South of Pingcheng Road, east of Xingping Si Road, Pinghu Economic Development Road	柯福樂紙機織物(浙江)有限公司	津上精密機床(浙江)有限公司	Industrial	6 August 2012	26,067.70	N/A	8,367,732
N/A	Transfer Contract	West of Xingping San Road, north of Pingcheng Road, Pinghu Economic Development Zone	津上精密機床(浙江)有限公司	浙江品川精密機械有限公司	Industrial	5 January 2011	15,996.50	N/A	4,718,968 (Please see note (b))
N/A	Transfer Contract	No. 2008 Pingcheng Road, Pinghu Economic Technological Development Zone	平湖榮輝燈具有限公司	津上精密機床(浙江)有限公司	Industrial	2014	46,666.70	N/A	17,266,679
Total:							141,921.40		

(a) According to Grant Contract of Land Use Rights No. 3304822010A21030 dated 11 March 2010, the land use rights of a parcel of land with a site area of 6,022.6 sq. m. was contracted to be granted to 津上精密機床(浙江)有限公司 for a land premium of RMB1,230,000. According to Agreement on Resumption of Land Use Rights No. (2010) 1 dated 12 April 2010, a portion of the land with a site area of 1,210.6 sq. m. was subsequently resumed by the Pinghu Government for a compensation fee of RMB247,242.

- (b) According to Grant Contract of Land Use Rights No. 3304822010A21141 dated 18 October 2010, the land use rights of a parcel of land with a site area of 15,996.50 sq. m. was contracted to be granted to 津上精密機床(浙江)有限公司 for a land premium of RMB3,480,000. According to Transfer Contract of Land Use Rights dated 5 January 2011, it was contracted to be transferred to 浙江品川精密機械有限公司 for a consideration of RMB4,718,968.

According to the Asset Transfer Agreement entered into between 柯福樂紙機織物(浙江)有限公司 (“Party A”) and 津上精密機床(浙江)有限公司 (“Party B”) on 20 March 2012, the land use rights and the building ownership of the industrial buildings situated at No. 2211 Pingcheng Road, Pinghu Economic Development Zone, Pinghu, Zhejiang Province, and the ancillary facility and production equipment were agreed to be transferred to Party B for a consideration of RMB15,000,000.

According to the Asset Transfer Agreement entered into between 平湖榮輝燈具有限公司 (“Party A”) and 津上精密機床(浙江)有限公司 (“Party B”) on 18 December 2013, the land use rights and the building ownership of the industrial buildings situated at No. 2008 Pingcheng Road, Pinghu Economic Development Zone, Zhejiang Province were agreed to be transferred to Party B for a consideration of RMB57,000,000.

- (3) According to 12 Building Ownership Certificates issued by the Pinghu Planning and Construction Bureau, the building ownership of the property with a total gross floor area of 91,944.70 sq. m. has been vested in the Group with details as follows:

Certificate No.	Location	Use	Gross	Registration Date	Building Owner
			Floor Area (sq. m.)		
00120418	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Non-residential	1,461.16 3,805.56	11 March 2010	津上精密機床(浙江)有限公司
00133180	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Non-residential	1,167.28 3,052.34 304.59	10 September 2010	津上精密機床(浙江)有限公司
00133181	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Non-residential	3,033.17	10 September 2010	津上精密機床(浙江)有限公司
00144330	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial (ancillary)	8,161.21	13 April 2011	津上精密機床(浙江)有限公司
00195155	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial Industrial Industrial	6,279.44 2,693.75 4,153.74	15 May 2013	津上精密機床(浙江)有限公司
00242870	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial Industrial	5,029.34 30.89	16 February 2015	津上精密機床(浙江)有限公司
00210827	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial	6,951.74	9 December 2013	津上精密機床(浙江)有限公司

Certificate No.	Location	Use	Gross	Registration Date	Building Owner
			Floor Area (sq. m.)		
00242906	No. 2001 Pingcheng Road, Pinghu Economic Development Zone	Industrial	6,016.97	25 February 2015	津上精密機床(浙江)有限公司
00161674	No. 2088 Pingcheng Road, Pinghu Economic Development Zone	Industrial Industrial	5,195.22 3,794.38	2 March 2012	浙江品川精密機械有限公司
00222006	No. 2008 Pingcheng Road, Pinghu Economic Development Zone	Industrial	2,787.86	16 May 2014	津上精密機床(浙江)有限公司
00222007	No. 2008 Pingcheng Road, Pinghu Economic Development Zone	Industrial Industrial Industrial	1,236.72 6,517.21 2,527.68 (Please see note (a))	16 May 2014	津上精密機床(浙江)有限公司
00222008	No. 2008 Pingcheng Road, Pinghu Economic Development Zone	Industrial Industrial Industrial	10,322.56 5,418.99 2,002.9	16 May 2014	津上精密機床(浙江)有限公司
Total:			91,944.70		

- (a) As advised by the Group, portion of the building with a gross floor area of 2,527.68 sq. m. has not been in use by the Group and was demolished in April 2015. Hence, no commercial value has been assigned for such portion. Therefore, the total gross floor area of 89,417.02 sq. m. is counted in the course of our valuation.
- (4) As advised by the Group, various structures for guard rooms, canteens, transformer rooms have been constructed without any legal documents or details. In the course of our valuation, we have not assigned commercial values to these structures.
- (5) According to Business Licence No. 91330400753954554X dated 23 January 2017, 津上精密機床(浙江)有限公司 was established as a company with limited liability, it has a registered capital of USD43,300,000 for a valid operation period from 11 September 2003 to 10 September 2053.
- According to Business Licence No. 91330482565871321X dated 6 February 2017, 浙江品川精密機械有限公司 (a fully owned subsidiary company of 津上精密機床(浙江)有限公司) was established as a company with limited liability, it has a registered capital of RMB35,000,000 for a valid operation period from 24 November 2010 to 23 November 2060.
- (6) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, inter alia, the following information:
- (a) The State-owned Land Use Rights Certificates of the property are valid and legal under the PRC laws;
- (b) All land premium stated in the Grant Contracts of State-owned Land Use Rights and the Transfer Contracts of Land Use Rights have been paid and fully settled;

- (c) The Group is the sole legal land user of the property and has obtained the relevant certificates and approval from the government in respect of the construction of the property; and
- (d) The Group has the rights to freely occupy, use, transfer, lease, mortgage or dispose of the property by other legal means.
- (7) In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

State-owned Land Use Rights Certificate	Yes
Grant Contract of Land Use Rights	Yes
Transfer Contract of Land Use Rights	Yes
Asset Transfer Agreement	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

- (8) In valuing the property, we have assumed from about RMB422 to RMB456 per sq. m. on site area basis for the land portion of the property.

In undertaking our valuation, we have made reference to sales prices of land within the same district which have characteristics comparable to the property. The prices of similar parcels of land range from about RMB472 to RMB490 per sq. m. on site area basis.

The unit rates assumed by us are consistent with the relevant comparables after due adjustments.

SUMMARY OF THE CONSTITUTION OF OUR COMPANY

1. Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 4 September 2017 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VI in the section headed “Documents available for inspection”.

2. Articles of Association

The Articles of Association of the Company were conditionally adopted on 4 September 2017 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is HK\$1,000,000,000 divided into 1,000,000,000 shares of HK\$1.00 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 *Alteration of capital*

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which

notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 *Voting rights*

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period

covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may

disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 July 2013 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3. Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company

redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4. Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5. Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12. Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13. Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17. Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18. Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19. Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking is for a period of twenty years from 23 July 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20. Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21. General

Maples and Calder (Hong Kong) LLP, the Company's Legal Advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection – Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. FURTHER INFORMATION ABOUT OUR GROUP

Incorporation

Our Company was incorporated as an exempted company in the Cayman Islands under the Companies Law on 2 July 2013. Our Company's registered office is located at PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. Our Company has established our principal place of business in Hong Kong at 21/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 26 April 2017. Ms. Wong Wai Yee Ella and Ms. Ho Wing Tsz Wendy have been appointed as our agents for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Law and its constitution comprises the Memorandum of Association and Articles of Association. A summary of various provisions of the Memorandum of Association and Articles of Association and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

Changes in share capital of our Company

The authorised share capital of our Company as at the date of its incorporation was HK\$350,000 divided into 350,000 Shares of HK\$1.00 each. The following sets out the changes in the Company's issued share capital since our Company's incorporation up to the date of this prospectus:

- (a) On 2 July 2013, the initial member transferred the one issued Share of HK\$1.00 in our Company to Tsugami Japan.
- (b) On 7 January 2014, one Share of HK\$1.00 was allotted and issued to Tsugami Japan as consideration for the transfer of 100% equity interest in PTC by Tsugami Japan to our Company.
- (c) On 14 March 2014, the authorised share capital of our Company was increased to HK\$15,000,000 divided into 15,000,000 Shares of HK\$1.00 each, by the creation of an additional 14,650,000 Shares.
- (d) On 15 May 2014, one Share of HK\$1.00 was allotted and issued to Tsugami Japan in consideration of USD5,000,000 paid by Tsugami Japan.
- (e) Pursuant to the written resolutions of our sole Shareholder dated 4 September 2017, the authorised share capital of our Company was increased from HK\$15,000,000 to HK\$1,000,000,000 by the creation of an additional 985,000,000 Shares.

A total of 60,000,000 new Shares will be offered to the public by way of public offer.

Conditional upon the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the allotment and issue of the Offer Shares by our Company pursuant to the Global Offering, HK\$299,999,997 standing to the credit of the share premium account of our Company will be capitalised from the share premium account and applied in paying up in full 299,999,997 Shares at par, which will be allotted and issued to Tsugami Japan.

Immediately following the Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options), the issued share capital of our Company will be HK\$360,000,000 divided into 360,000,000 Shares fully paid or credited as fully paid and 640,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or the Pre-IPO Share Options, our Directors do not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save for the aforesaid and as mentioned in the paragraph headed “1. Further information about our Group – Written resolutions of the sole Shareholder of our Company passed on 4 September 2017” below in this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

Written resolutions of the sole Shareholder of our Company passed on 4 September 2017

Pursuant to the written resolutions of the sole Shareholder passed on 4 September 2017, among other things:

- (a) the Memorandum of Association and Articles of Association were approved and adopted as the new memorandum of association and articles of association of our Company, in substitution for and to the exclusion of the existing memorandum of association and articles of association of our Company, with effect from the Listing Date;
- (b) our Company increased its authorised share capital from HK\$15,000,000 divided into 15,000,000 Shares of HK\$1.00 each to HK\$1,000,000,000 divided into 1,000,000,000 Shares of HK\$1.00 each by the creation of an additional 985,000,000 Shares of HK\$1.00 each, each ranking *pari passu* in all respects with the Shares in issue at the date of passing of these resolutions;
- (c) conditional on, among others, (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in our Shares in issue and to be issued pursuant to the Capitalisation Issue and our Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options); (ii) the entering into of the agreement on the Offer Price among our Company, the Selling Shareholder and

the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

- (i) the Global Offering was approved and our Directors were authorised to allot and issue the new Shares pursuant to the Global Offering;
 - (ii) the Over-allotment Option was approved and our Directors were authorised to allot and issue such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option; and
 - (iii) conditional on the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the allotment and issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to capitalise HK\$299,999,997 standing to the credit of the share premium account of our Company by applying such sum in paying up in full 299,999,997 Shares at par, for allotment and issue to Tsugami Japan, the sole shareholder appearing on the register of members of our Company at the close of business immediately prior to the completion of the Listing;
- (d) the Issue Mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements, or a specific authority granted by our Shareholders in accordance with the Articles of Association, or pursuant to the exercise of any Pre-IPO Share Options, or under the Capitalisation Issue or the Global Offering, Shares with an aggregate nominal amount of not exceeding 20.0% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options) until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association, the Cayman Companies Law or any other applicable Cayman Islands laws to be held, or the passing of ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors as set out in this paragraph (d), whichever occurs first;
- (e) the Repurchase Mandate was given to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal value of not exceeding 10.0% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options) until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required

by the Articles of Associations, the Cayman Companies Law or any other applicable Cayman Islands laws to be held, or the passing of ordinary resolution by our Shareholders revoking or varying the authority given to our Directors as set out in this paragraph (e), whichever occurs first; and

- (f) the Issue Mandate to allot, issue and deal in our Shares as mentioned in paragraph (d) above was extended by the addition of the aggregate number of Shares which may be allotted and issued or agreed (conditionally or unconditionally) to be allotted or issued by our Directors pursuant to such general mandate of an amount representing the aggregate number of our Shares repurchased by our Company pursuant to paragraph (e) above.

2. CHANGES IN SHARE CAPITAL OF OUR SUBSIDIARIES

Changes in share capital of our Company's subsidiaries

The subsidiaries of our Company are referred to in the Accountants' Report as set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries.

Save for the alterations disclosed in the section headed "History, Reorganisation and Corporate Structure" in this prospectus, there is no other alteration in the share capital or registered share capital of our subsidiaries which took place within the two years immediately preceding the date of this prospectus.

3. REORGANISATION

In preparation for the Global Offering, we underwent the Reorganisation, details of which are set out in the section headed "History, Reorganisation and Corporate Structure" in this prospectus. Following the Reorganisation, our Company became the holding company of our Group.

A diagram showing our Group structure after the Reorganisation and immediately upon completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised) is set out in the section headed "History, Reorganisation and Corporate Structure – Shareholding structure upon completion of the Global Offering" in this prospectus.

4. REPURCHASES OF OUR COMPANY'S SECURITIES

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board of Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by an ordinary resolution of our Shareholders at a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 4 September 2017, our Directors were granted the Repurchase Mandate to repurchase Shares with an aggregate nominal value of not exceeding 10.0% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options) on the Stock Exchange or on any other stock exchange on which our Company's securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. This Repurchase Mandate will expire at the earliest of (i) the conclusion of our Company's next annual general meeting; (ii) the date by which our Company's next annual general meeting is required by our Articles of Association or the Cayman Companies Law or applicable laws in the Cayman Islands to be held; or (iii) such mandate being revoked or varied by ordinary resolution of our Shareholders at a general meeting.

(ii) Source of funds

Our Company's repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with our Memorandum of Association, our Articles of Association, the Listing Rules, the Cayman Companies Law and the applicable laws of the Cayman Islands. Our Company may not repurchase the Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, under Cayman Islands law, our Company may make repurchases out of the profit, or out of our Company's share premium account, or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase, or, if so authorised by our Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital. Any premium payable on the purchase over the par value of the Shares to be repurchased must be provided for out of either or both the profits of our Company or our Company's share premium account, or if so authorised by our Articles of Association and subject to the Cayman Companies Law, out of capital.

(b) Reasons for repurchases

Our Directors believe that it is in our Company's and our Shareholders' best interests for our Directors to have general authority to enable our Company to repurchase the Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets value per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with our Memorandum of Association, our Articles of Association, the Listing Rules, the Cayman Companies Law and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) Share capital

The exercise in full of the current Repurchase Mandate, on the basis of 360,000,000 Shares in issue immediately after the Capitalisation Issue and Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Pre-IPO Share Options), could accordingly result in up to 36,000,000 Shares being repurchased by our Company during the relevant period under the Listing Rules.

(e) General

None of our Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their close associates, currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, our Memorandum of Association, our Articles of Association, the Cayman Companies Law and any other applicable laws of the Cayman Islands.

If as a result of any repurchase of the Shares, a Shareholder's proportionate interest in our Company's voting rights is increased, the increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Takeovers Code) could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as mentioned above, our Directors are not aware of any other consequences of repurchase pursuant to the Repurchase Mandate which would arise under the Takeovers Code.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25.0% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person of our Company has notified our Group that he, she or it has a present intention to sell his, her or its Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

5. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of our material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of our business) within two years immediately preceding the date of this prospectus which are or may be material:

- (a) the assignment of registered trade marks entered into between Tsugami Japan and PTC dated 20 January 2017, pursuant to which Tsugami Japan agreed to assign four Hong Kong registered trade marks and the full and exclusive benefit of each of them, together with the goodwill in relation thereto, to PTC at the consideration of RMB10,000;

- (b) the Hong Kong Underwriting Agreement;
- (c) the Deed of Non-competition;
- (d) the Deed of Indemnity, more particularly referred to in the paragraph headed “9. Other information – A. Tax and other indemnities” in this Appendix;
- (e) the cornerstone investment agreement dated 5 September 2017 entered into between our Company and FANUC Corporation, pursuant to which FANUC Corporation agreed to subscribe for such number of Offer Shares offered by our Company in the International Offering as may be purchased with an aggregate subscription price of JPY500,000,000, rounded down to the nearest whole board lot of 1,000 Shares;
- (f) the cornerstone investment agreement dated 5 September 2017 entered into between our Company and SMC Corporation, pursuant to which SMC Corporation agreed to subscribe for such number of Offer Shares offered by our Company in the International Offering as may be purchased with an aggregate subscription price of JPY500,000,000, rounded down to the nearest whole board lot of 1,000 Shares; and
- (g) the cornerstone investment agreement dated 5 September 2017 entered into between our Company and Tokyo Seimitsu Co., LTD., pursuant to which Tokyo Seimitsu Co., LTD. agreed to subscribe for such number of Offer Shares offered by our Company in the International Offering as may be purchased with an aggregate subscription price of JPY1,000,000,000, rounded down to the nearest whole board lot of 1,000 Shares.



B. Our intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, we have registered the following trademarks which are material to our business:

<u>Trademark</u>	<u>Place of registration</u>	<u>Name of registrant</u>	<u>Trademark number</u>	<u>Class</u>	<u>Expiry date</u>
津上	PRC	PTC	9040064	7	20 January 2022
Precision Tsugami (Hong Kong) Limited Precision Tsugami (Hong Kong) Limited . . .	Hong Kong	PTC	303408020	7	13 May 2025
津上精密機床(香港)有限公司 津上精密機床 (香港) 有限公司 .	Hong Kong	PTC	303408039	7	13 May 2025
Precision Tsugami (China) Corporation Limited Precision Tsugami (China) Corporation Limited .	Hong Kong	PTC	303408048	7	13 May 2025
津上精密機床(中國)有限公司 津上精密機床 (中國) 有限公司 .	Hong Kong	PTC	303408057	7	13 May 2025
品川	PRC	PTC	16994941	7	6 September 2026
津上	PRC	PTC	18716705	7	13 May 2027

As at the Latest Practicable Date, the registered trademarks licensed to our Company under the Technology Licence Agreement are as follows:

<u>Trademark</u>	<u>Place of registration</u>	<u>Name of registrant</u>	<u>Trademark number</u>	<u>Class</u>	<u>Expiry date</u>
TSUGAMI	PRC	Tsugami Japan	G907931	7	8 November 2026
津上	Hong Kong	Tsugami Japan	303408066	7	13 May 2025
	Hong Kong	Tsugami Japan	303408075	7	13 May 2025
TSUGAMI	Hong Kong	Tsugami Japan	303408084	7	13 May 2025
	Taiwan	Tsugami Japan	00045530	180	28 February 2021
TSUGAMI	Taiwan	Tsugami Japan	00987287	7	28 February 2022

As at the Latest Practicable Date, we are in the process of registering the following trademarks:

<u>Trademark</u>	<u>Place of registration</u>	<u>Name of registrant</u>	<u>Trademark number</u>	<u>Class</u>	<u>Application date</u>
津上精密机床 (浙江) 有限公司 . .	PRC	PTC	22633765	7	16 January 2017
津上精密机床 (香港) 有限公司 . .	PRC	PTC	22633872	7	16 January 2017
津上精密机床 (中国) 有限公司	PRC	PTC	22633728	7	16 January 2017
Precision Tsugami (China) Corporation Limited . .	PRC	PTC	22633393	7	16 January 2017
Precision Tsugami (Hong Kong) Limited . . .	PRC	PTC	22633546	7	16 January 2017
津上精密机床 (浙江) 有限公司	PRC	PTC	22634790	35	16 January 2017
津上精密机床 (香港) 有限公司	PRC	PTC	22634711	35	16 January 2017
津上精密机床 (中国) 有限公司	PRC	PTC	22634282	35	16 January 2017
Precision Tsugami (China) Corporation Limited	PRC	PTC	22634255	35	16 January 2017
Precision Tsugami (Hong Kong) Limited	PRC	PTC	22634413	35	16 January 2017

(b) Patents*Patents registered in the PRC*

As at the Latest Practicable Date, the following are patents that our subsidiaries have been granted in the PRC:

<u>Description of the patent</u>	<u>Patent no.</u>	<u>Patent holder</u>	<u>Application date</u>	<u>Expiry date</u>
Automatically random 365° rotating servo-driven turret (自動任意旋轉365°伺服驅動刀塔) . . .	ZL2011203 14152.0	PTC	24 August 2011	23 August 2021
Whirling milling machine (旋風銑)	ZL2011203 56737.9	PTC	22 September 2011	21 September 2021
Back spindle tool holder (背面驅動刀台)	ZL2011203 56731.1	PTC	22 September 2011	21 September 2021
Electric rotary guide sleeve structure (電旋轉導套結構)	ZL2011203 56736.4	PTC	22 September 2011	21 September 2021
Servo rear discharge device (伺服後方排出裝置)	ZL2011203 56708.2	PTC	22 September 2011	21 September 2021
CNC device for bar materials processing, conveying and collecting (數控加工棒料輸送接料裝置)	ZL2011203 14150.1	PTC	24 August 2011	23 August 2021
Continuously variable transmitting electro-spindle (無級變速電主軸)	ZL2011202 74094.3	PTC	31 July 2011	30 July 2021
Compound power head device (複合型動力頭裝置)	ZL2011202 74093.9	PTC	31 July 2011	30 July 2021
High precision four-axis composite machining CNC machine tools (高精度四軸複合加工型數控機床) . . .	ZL2011202 05773.5	PTC	17 June 2011	16 June 2021
High precision three-axis continuously machining CNC machine tools (高精度三軸連續加工型數控機床) . . .	ZL2011202 05777.3	PTC	17 June 2011	16 June 2021
Four-axis precision CNC machine tools with built-in rear electro-spindle (四軸背面內置電主軸精密數控機床) . .	ZL2011202 05807.0	PTC	17 June 2011	16 June 2021

Description of the patent	Patent no.	Patent holder	Application date	Expiry date
Five-axis double electro-spindle CNC machine tools with no guide sleeve (五軸無導套雙電主軸精密數控機床) . . .	ZL201120205778.8	PTC	17 June 2011	16 June 2021
Four-axis CNC machine tools with no guide sleeve (四軸無導套精密數控機床)	ZL201120205802.8	PTC	17 June 2011	16 June 2021
Five-axis double electro-spindle CNC machine tools with separate tool holder (五軸雙電主軸獨立刀台式精密數控機床)	ZL201120205806.6	PTC	17 June 2011	16 June 2021
Sub spindle stopper device in CNC precision automatic lathe (走心機上的副軸擋料裝置)	ZL201621014973.1	PTC	30 August 2016	29 August 2026
CNC precision automatic lathe (走心機)	ZL201621009640.X	PTC	30 August 2016	29 August 2026
Telescopic work receiver (伸縮式接料器)	ZL201621014935.6	PTC	30 August 2016	29 August 2026
Stocker (收料倉)	ZL201621009637.8	PTC	30 August 2016	29 August 2026
One kind of cutting detecting device of lathe workpiece (一種車床工件的切斷檢測裝置)	ZL201621014899.3	PTC	30 August 2016	29 August 2026
One kind of liquid level detector of lathe coolant tank (一種機床油箱液位檢測裝置)	ZL201621014875.8	PTC	30 August 2016	29 August 2026
One kind of stopper structure (一種擋料結構)	ZL201621029394.4	PTC	30 August 2016	29 August 2026
One kind of tool-holders coolant injection equipment and the CNC precision automatic lathe with this application (一種刀排噴油裝置以及應用該裝置的走心機)	ZL201621014842.3	PTC	30 August 2016	29 August 2026
One kind of tailstock center structure (一種頂尖結構)	ZL201621014818.X	PTC	30 August 2016	29 August 2026
One kind of driven tailstock center equipment (一種驅動頂尖裝置)	ZL201621014781.0	PTC	30 August 2016	29 August 2026

Description of the patent	Patent no.	Patent holder	Application date	Expiry date
One kind of blowing equipment in main spindle (一種主軸內吹氣裝置)	ZL2016210 14751.X	PTC	30 August 2016	29 August 2026
One kind of special long material discharge equipment (一種特殊長物排出裝置)	ZL2016210 14704.5	PTC	30 August 2016	29 August 2026
One kind of lathe with outside coolant tank (一種帶有外置油箱的機床)	ZL2016210 09614.7	PTC	30 August 2016	29 August 2026
One kind of turret eccentric driven tools act on the main spindle (一種作用於主軸上的帶有偏心動力頭的刀台)	ZL2016210 14680.3	PTC	30 August 2016	29 August 2026
One kind of main spindle shock absorption (一種主軸減震裝置)	ZL2016210 29381.7	PTC	30 August 2016	29 August 2026
One kind of inner expanding collet chuck (一種內漲式筒夾裝置)	ZL2016210 29348.4	PTC	30 August 2016	29 August 2026
One kind of angle adjustable lightening equipment inside the machine (一種角度可調式機內照明燈裝置)	ZL2016210 14616.5	PTC	30 August 2016	29 August 2026
Stopper device with detecting function (帶有檢測功能的擋料裝置)	ZL2016209 95954.5	PTC	30 August 2016	29 August 2026
One kind of CNC precision automatic lathe (一種走心機)	ZL2016210 09329.5	PTC	30 August 2016	29 August 2026
Movable stopper block (移動式擋料塊)	ZL2016210 14516.2	PTC	30 August 2016	29 August 2026
Lathe with manipulator easier in and out (便於機械手進出的機床)	ZL2016210 11612.1	PTC	30 August 2016	29 August 2026
Automatic tool presetting for turret lathe (刀塔機用自動對刀儀)	ZL2016210 14499.2	PTC	30 August 2016	29 August 2026
CNC precision automatic lathe unloader and CNC precision automatic lathe with this unloader (走心機下料裝置及帶有該下料裝置的走心機)	ZL2016210 14256.9	PTC	30 August 2016	29 August 2026

<u>Description of the patent</u>	<u>Patent no.</u>	<u>Patent holder</u>	<u>Application date</u>	<u>Expiry date</u>
Automatic door-opening lathe (自動開門的機床)	ZL2016210 09326.1	PTC	30 August 2016	29 August 2026
One kind of feeder (一種送料機)	ZL2016210 14165.5	PTC	30 August 2016	29 August 2026
One kind of mounting airtight inspection device (一種車床氣密檢測裝置)	ZL2016209 96012.9	PTC	30 August 2016	29 August 2026
One kind of loading and unloading equipment and turret with this equipment (一種上下料裝置及應用該裝置的刀塔 機)	ZL2016209 96602.1	PTC	30 August 2016	29 August 2026
One kind of workpiece extraction equipment (一種工件引出裝置)	ZL2016210 09509.3	PTC	30 August 2016	29 August 2026
One kind of CNC precision automatic lathe (一種走心機)	ZL2016210 14518.1	PTC	30 August 2016	29 August 2026
One kind of automatic loader for CNC precision automatic lathe (一種走心機自動上料裝置)	ZL2016210 09304.5	PTC	30 August 2016	29 August 2026
One kind of sand box with sand core 一種具有泥芯的砂箱	ZL2016210 94859.4	Shinagawa Precision	30 September 2016	29 September 2026
One kind of casting mould 一種澆鑄模具	ZL2016210 94538.4	Shinagawa Precision	30 September 2016	29 September 2026
One kind of intermediate frequency furnace 一種中頻爐	ZL2016210 93593.1	Shinagawa Precision	30 September 2016	29 September 2026
One kind of anti-overflow intermediate frequency furnace 一種防溢中頻爐	ZL2016212 56217.X	Shinagawa Precision	18 November 2016	17 November 2026
One kind of hot metal ladle 一種鐵水包	ZL2016212 41379.6	Shinagawa Precision	18 November 2016	17 November 2026
One kind of positioning structure of mould 一種模具的定位結構	ZL2016212 47589.6	Shinagawa Precision	18 November 2016	17 November 2026

<u>Description of the patent</u>	<u>Patent no.</u>	<u>Patent holder</u>	<u>Application date</u>	<u>Expiry date</u>
One kind of feeding device of intermediate frequency furnace 中頻爐的送料裝置	ZL2016212 54566.8	Shinagawa Precision	18 November 2016	17 November 2026
One kind of exhaust and dust separation equipment of resin sand moulding sand mixer 一種樹脂砂混砂機排氣除塵裝置	ZL2016212 78153.3	Shinagawa Precision	22 November 2016	21 November 2026
One kind of sand reclaiming device 一種型砂回收裝置	ZL2016212 41110.8	Shinagawa Precision	18 November 2016	17 November 2026
One kind of travel crane to turn over mould cover 一種用於翻轉模蓋的行車	ZL2016212 41376.2	Shinagawa Precision	18 November 2016	17 November 2026
One kind of casting mould 一種澆注模具	ZL2016212 82718.5	Shinagawa Precision	28 November 2016	27 November 2026
One kind of mould flow coating machine 一種模具流塗機組	ZL2016212 83067.1	Shinagawa Precision	28 November 2016	27 November 2026
One kind of mould for machining casting mould 用於加工鑄造模具的模具	ZL2016212 86735.6	Shinagawa Precision	28 November 2016	27 November 2026
One kind of sand core for casting 一種澆注鑄件用泥芯	ZL2016212 94509.2	Shinagawa Precision	28 November 2016	27 November 2026
One kind of material conveyor 一種原料輸送機	ZL2016212 62294.6	Shinagawa Precision	22 November 2016	21 November 2026
One kind of extruder 一種擠出機	ZL2016212 62312.0	Shinagawa Precision	22 November 2016	21 November 2026
One kind of resin sand mould 一種樹脂砂模具	ZL2016212 81773.2	Shinagawa Precision	28 November 2016	27 November 2026
One kind of mould 一種模具	ZL2016212 82048.7	Shinagawa Precision	28 November 2016	27 November 2026
One kind of spraying constructure 一種噴塗機構	ZL2016212 82238.9	Shinagawa Precision	28 November 2016	27 November 2026
One kind of foundary mould 一種翻砂模具	ZL2016212 82413.4	Shinagawa Precision	28 November 2016	27 November 2026
One kind of fixing constructure for resin sand core 用於樹脂砂芯的固定機構	ZL2016212 68559.3	Shinagawa Precision	22 November 2016	21 November 2026

<u>Description of the patent</u>	<u>Patent no.</u>	<u>Patent holder</u>	<u>Application date</u>	<u>Expiry date</u>
One kind of dust collector 一種粉塵收集器	ZL2016212 68976.8	Shinagawa Precision	22 November 2016	21 November 2026
One kind of machine tool mould upper cover for casting machine tool 一種用於澆鑄機床的機床模具上蓋 . . .	ZL2016214 20050.6	Shinagawa Precision	22 December 2016	21 December 2026
One kind of fixing nut constructure for casting machine tool 一種用於澆鑄機床的定位螺帽結構 . . .	ZL2016214 24249.6	Shinagawa Precision	22 December 2016	21 December 2026

(c) Computer software copyright

As at the Latest Practicable Date, we had registered the following copyrights in the PRC:

Name of software	Registered owner	Registration number	Registration date
Tsugami controlling system for high precision three-axis continuously machining CNC machine tools (津上高精度三軸連續加工型數控機床控制系統)	PTC	2011SR058407	18 August 2011
Tsugami controlling system for four-axis precision CNC machine tools with built-in rear electro-spindle (津上四軸背面內置電主軸精密數控機床控制系統)	PTC	2011SR058396	18 August 2011
Tsugami controlling system for high precision four-axis composite machining CNC machine tools (津上高精度四軸複合加工型數控機床控制系統)	PTC	2011SR058394	18 August 2011
Tsugami controlling system for four-axis precision CNC machine tools with no guide sleeve (津上四軸無導套精密數控機床控制系統)	PTC	2011SR058363	18 August 2011
Tsugami controlling system for five-axis double electro-spindle precision CNC machine tools with separate tool holder (津上五軸雙電主軸獨立刀台式精密數控機床控制系統)	PTC	2011SR058301	18 August 2011
Tsugami controlling system for five-axis double electro-spindle precision CNC machine tools with no guide sleeve (津上五軸無導套雙電主軸精密數控機床控制系統)	PTC	2011SR058529	19 August 2011

(d) Domain Name

As at the Latest Practicable Date, PTC is the registrant of the following domain name:

<u>Domain name</u>	<u>Name of registrant</u>	<u>Registration date</u>	<u>Expiry date</u>
tsugami.com.cn. . . .	PTC	12 September 2003	12 September 2018

Note: Information contained in the website does not form part of this Prospectus.

Save as disclosed above, there are no other trade or service marks, patents, other intellectual or industrial property rights registered by our Group which are material to our business.

C. Further information on our subsidiaries established in the PRC*(1) PTC*

Name:	Precision Tsugami (China) Corporation (津上精密機床(浙江)有限公司)
Date and place of establishment:	11 September 2003, PRC
Nature:	Company with limited liability (wholly-owned by enterprise in Taiwan, Hong Kong or Macau)
Scope of business:	Manufacture and sale of high precision machine tools, its parts and components, provision of aftersales services
Registered capital:	US\$43,300,000
Attributable interest to our Group:	a wholly-owned subsidiary of Tsugami HK, an indirect wholly-owned subsidiary of our Company
Term of operation:	11 September 2003 to 10 September 2053
Legal Representative:	Mr. Takao Nishijima (西嶋尚生)

(2) *Shinagawa Precision*

Name:	Shinagawa Precision Machinery (Zhejiang) Co., Ltd.* (浙江品川精密機械有限公司)
Date and place of establishment:	24 November 2010, PRC
Nature:	Company with limited liability
Scope of business:	Iron and metal casting, manufacturing and processing of parts and components for metals machinery
Registered capital:	RMB35,000,000
Attributable interest to our Group:	a wholly-owned subsidiary of PTC, an indirect wholly-owned subsidiary of our Company
Term of operation:	24 November 2010 to 23 November 2060
Legal Representative:	Dr. Tang Donglei (唐東雷)

(3) *Tsugami Consultants*

Name:	Tsugami China Consultants Co., Limited* (平湖津上諮詢有限公司)
Date and place of establishment:	18 June 2012, PRC
Nature:	Company with limited liability
Scope of business:	Commercial information consulting
Registered capital:	RMB1,000,000
Attributable interest to our Group:	a wholly-owned subsidiary of PTC, an indirect wholly-owned subsidiary of our Company
Term of operation:	18 June 2012 to 17 June 2062
Legal Representative:	Dr. Tang Donglei (唐東雷)

6. DISCLOSURE OF INTEREST

A. Disclosure of interests

(a) Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and its associated corporations following the completion of the Capitalisation Issue and the Global Offering

Immediately following completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option or the Pre-IPO Share Options are not exercised), the interests and short positions of our Directors and chief executive of our Company in the shares, underlying shares or debenture of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions in which they are taken or deemed to have under such provisions), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Listing Rules, to be notified to our Company and the Stock Exchange, in each case, once our Shares are listed will be as follows:

(i) Interests in the underlying Shares

<u>Name</u>	<u>Capacity</u>	<u>Nature of interest</u>	<u>Number of Shares subject to Pre-IPO Share Options</u>	<u>Approximate percentage of shareholding after the Capitalisation Issue and the Global Offering</u> <i>(Note 1)</i>
Tang Donglei . . .	Beneficial owner	Pre-IPO Share Options	800,000	0.22%
	Family interest <i>(Note 2)</i>	Pre-IPO Share Options	310,000	0.09%
Yoshimasa Hashimoto . .	Beneficial owner	Pre-IPO Share Options	150,000	0.04%
Takao Nishijima . .	Beneficial owner	Pre-IPO Share Options	1,100,000	0.31%
Mami Matsushita . .	Beneficial owner	Pre-IPO Share Options	550,000	0.15%

Notes:

- (1) The calculation is based on the total number of 360,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the Over-allotment Option or any Pre-IPO Share Options).

- (2) Ms. Wang Xiaojun is one of the Grantees. She is the spouse of Dr. Tang Donglei. Dr. Tang Donglei is deemed to be interested in the same number of Pre-IPO Share Options in which Ms. Wang Xiaojun is interested pursuant to the SFO.

(ii) *Interests in the shares of associated corporation*

<u>Name</u>	<u>Capacity</u>	<u>Name of associated corporation</u>	<u>Nature of interest</u>	<u>Number of shares in associated corporation</u>	<u>Approximate percentage of shareholding in associated corporation</u>
Takao Nishijima .	Beneficial owner	Tsugami Japan	Shares interest in Tsugami Japan	10,000	0.02%

(b) *Interests discloseable under the SFO and substantial shareholders of other members of our Group*

(i) *Interests in our Company*

Save as disclosed in the section headed “Substantial Shareholder” in this prospectus, our Directors are not aware of any other person, not being a Director or chief executive of our Company, who has or will have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is or will be, directly or indirectly, interested in 10.0% or more of the issued voting shares of our Company or has option in respect of our Shares.

(ii) *Interests in other members of our Group*

Our Directors are not aware of any other person, not being a Director or chief executive of our Company, who is or will have an interest or short position in 10.0% or more of the issued voting shares of any other member of our Group or has option in respect of such capital.

7. FURTHER INFORMATION ABOUT OUR DIRECTORS

A. Directors’ service contracts

Each of our Directors has entered into a service contract or an appointment letter (as the case may be) with our Company for an initial fixed term of three years commencing on the Listing Date which may only be terminated in accordance with the provisions of the service contract or the appointment letter (as the case may be) or by (i) our Company giving to any Director not less than three months’ prior notice in writing or (ii) by any Director giving to our Company not less than one month’s prior notice in writing.

Each of our Directors is entitled to the respective basic salary under their respective service contracts or appointment letters set out below. Our Directors may also be entitled to a discretionary bonus. A Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him or her.

None of our Directors has or is proposed to have a service contract or an appointment letter (as the case may be) with our Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Our Company has not entered into any service contract with our Directors which is for a duration that may exceed three years or which is not determinable by our Company within one year without payment of compensation (other than statutory compensation).

B. Directors' remuneration during the Track Record Period

For the three years ended 31 March 2015, 2016 and 2017, the aggregate remuneration paid to our Directors by our Group was approximately RMB5.9 million, RMB3.6 million and RMB4.7 million, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable in respect of the years ended 31 March 2015, 2016 and 2017 by our Group to our Directors.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors for the year ending 31 March 2018 is estimated to be no more than RMB5.4 million.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for the years ended 31 March 2015, 2016 and 2017 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the years ended 31 March 2015, 2016 and 2017.

8. PRE-IPO SHARE OPTION SCHEME

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme adopted by our sole Shareholder on 14 March 2014:

A. Summary of terms

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain members of the board of directors and chief executives of our Group to the growth of our Group and/or to the listing of the Shares on the Stock Exchange by granting options to them as incentive or reward, and to attract, retain and motivate the employees of our Group to contribute to our Group and/or strive for future development and expansion of our Group.

The principal terms of the Pre-IPO Share Option Scheme, approved by the written resolutions of our sole Shareholder passed on 14 March 2014, are as follows:

- (a) the exercise period shall commence on the first anniversary of the date of offer to group A eligible persons and third anniversary of the date of offer to group B eligible persons, subject to the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in the Shares;
- (b) as at the Latest Practicable Date, the total number of Shares subject to the Pre-IPO Share Options is 7,870,000 Shares, representing (i) approximately 2.2% of the total issued Shares immediately upon completion of the Global Offering and Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be allotted and issued pursuant to the Pre-IPO Share Options); and (ii) approximately 2.1% of the total issued share capital of the Company immediately upon completion of the Global Offering and assuming that all the Pre-IPO Share Options are exercised at the same time (assuming the Over-allotment Option is not exercised);
- (c) the subscription price (the “**Subscription Price**”) for the Shares under the Pre-IPO Share Option Scheme will be fixed at HK\$1.50 per Share or such other price, which shall be no less than the nominal value of a Share, as may be determined by the Board in its sole discretion, subject to any adjustment made in the manner as contemplated under the Pre-IPO Share Option Scheme;
- (d) the maximum number of Shares in respect of the Pre-IPO Share Options will not exceed 5,000,000 Shares for group A eligible persons and 5,000,000 Shares for group B eligible persons, representing in total approximately 2.78% of the issued share capital upon completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option and the Pre-IPO Share Options);

- (e) the right to exercise the Pre-IPO Share Options shall terminate immediately, among others, upon the date on which the Grantee ceases to be an eligible person as defined under the Pre-IPO Share Option Scheme for any reason, among others, summary dismissal or being dismissed for misconduct or other breach of the terms of his/her employment contract or other contract constituting him/her an eligible person under the Pre-IPO Share Option Scheme;
- (f) the Pre-IPO Share Option Scheme is valid and effective for a period of ten years commencing on 14 March 2014, being the date on which the Pre-IPO Share Option Scheme was adopted by the sole Shareholder. The exercise period for the Pre-IPO Share Options granted to group A eligible persons and group B eligible persons are from 17 March 2015 to 16 March 2020 and 17 March 2017 to 16 March 2020, respectively. After the Listing, no further options will be granted thereunder but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the exercise of any options granted.

B. Outstanding options granted under the Pre-IPO Share Option Scheme

As at the Latest Practicable Date, options to subscribe for an aggregate of 7,870,000 Shares, representing (i) approximately 2.2% of the total issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be allotted and issued pursuant to the Pre-IPO Share Options) and (ii) approximately 2.1% of the total issued share capital of our Company immediately upon completion of the Capitalisation Issue and the Global Offering assuming that all the Pre-IPO Share Options are exercised at the same time (assuming the Over-allotment Option is not exercised), have been conditionally granted by our Company under the Pre-IPO Share Option Scheme for nil consideration per Grantee. Particulars of the Pre-IPO Share Options are set out below.

Based on the total number of 360,000,000 Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised), if all the outstanding Pre-IPO Share Options for a total of 7,870,000 Shares are exercised in full, there would be a dilution effect of approximately 2.1% on the earnings per Share.

C. Summary of Grantees

As at the Latest Practicable Date, outstanding Pre-IPO Share Options to subscribe for an aggregate of 7,870,000 Shares were conditionally granted to the following Grantees under the Pre-IPO Share Option Scheme:

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
1. Tang Donglei (唐東雷) . . .	21-502, Jinxiu Garden Danghu Street Pinghu Zhejiang province PRC	Chief executive officer, executive Director, the director of Tsugami HK, vice chairman, president and a director of PTC, and the chairman and legal representative of Shinagawa Precision and Tsugami Consultants	800,000	17 March 2015 – 16 March 2020	0.22%
2. Wang Xiaojun (王曉君) . . .	Room 602 88 Lane No. 12 Sanjiang Road Xuhui District Shanghai PRC	Executive advisor of PTC	310,000 (Note 1)	17 March 2015 – 16 March 2020	0.086%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
3. Yoshimasa Hashimoto (橋本剛昌) . .	3-27-2, Maeharacho Koganei-shi Tokyo Japan	Executive Director	150,000	17 March 2017 – 16 March 2020	0.04%
4. Takao Nishijima (西嶋尚生) . .	3-13-10, Kitakokubun Ichikawa-shi Japan	Chairman and non-executive Director, and chairman and the legal representative of PTC	1,100,000	17 March 2015 – 16 March 2020	0.31%
5. Mami Matsushita (松下真実) . .	Galleria Mare #301 1-1-3, Higashi-Nihonbashi Chuo-ku Tokyo 103-0004 Japan	Non-executive Director, a director of PTC and Tsugami Consultants and the supervisor of Shinagawa Precision	550,000	17 March 2015 – 16 March 2020	0.15%
6. Takeshi Takahashi (高橋岳史) . .	Room 319 New Yindu Hotel No. 339 Xingping 2nd Road, Pinghu Economic and Technology Development District Zhejiang province PRC	Director of PTC	150,000	17 March 2017 – 16 March 2020	0.04%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
7. Kiyoshi Tauchi (田内清) . . .	2-8-18, Yutaka Nagaoka-shi Niigata Japan	Director of Shinagawa Precision	550,000	17 March 2015 – 16 March 2020	0.15%
8. Hajime Oodaira (大平肇) . . .	3-2-5, Sakanouecho Nagaoka-shi Niigata Japan	Supervisor of Tsugami Consultants	380,000	17 March 2015 – 16 March 2020	0.11%
9. Toshiharu Nijima (新嶋敏治) . .	11-15, Koshojicho Nagaoka-shi Niigata Japan	Chief executive of PTC	150,000	17 March 2015 – 16 March 2020	0.04%
10. Yasuhiro Shirakura (白倉康弘) . .	323-28, Nozawa Saku-shi Niigata Japan	Chief executive of PTC	75,000	17 March 2015 – 16 March 2020	0.02%
11. Li Zequn (李澤群) . . .	Room 702, Unit 1 Building 6 Beichenglijing Danghu Street Pinghu Zhejiang province PRC	Vice president of our Group and a director of PTC	150,000	17 March 2017 – 16 March 2020	0.04%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
12. Jiang Ping (蔣平)	Room 1102, Unit 1 Building 4, Ming Dou Jia Yuan Zhong Dai Street Pinghu Zhejiang province PRC	Vice president of our Group, a director of PTC and the president and a director of Tsugami Consultants	310,000	17 March 2015 – 16 March 2020	0.09%
13. Lin Hsin-Tze (林新澤)	Room 3-1102 Jing Yue Li Du Danghu Pinghu Zhejiang province PRC	Vice president of our Group and a director of PTC and Shinagawa Precision	310,000	17 March 2015 – 16 March 2020	0.09%
14. Wang Xiaokun (王曉坤)	Room 15-601 21 Hai Er Road Laoshan District Qingdao Shangdong province PRC	Vice president of PTC	230,000	17 March 2017 – 16 March 2020	0.06%
15. Li Junying (李軍營)	Room 403, Unit 2 Building 6 Fei Cui Hua Yuan Zhong Dai Street Pinghu Zhejiang province PRC	Assistant to president, and financial manager of our Group	150,000	17 March 2017 – 16 March 2020	0.04%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
16. Ko Boon Say (許文生) . . .	21C, Unit 4, Block 1 Water Blue Bay Park Longgang Shenzhen Guangdong province PRC	Vice president and general manager of sales department No. 2 of PTC	230,000	17 March 2017 – 16 March 2020	0.06%
17. Wu Zhouping (吳舟平) . . .	Room 4-1503 Shangjin Garden Zhongdai Road Pinghu Zhejiang province PRC	President of the union, special assistant to the president of PTC	150,000	17 March 2017 – 16 March 2020	0.04%
18. Lin Qiuyu (林秋玉) . . .	15/F, No. 574 Xueqin Rd Shulin District New Taipei City Taiwan	Advisor of procurement department of PTC (mainly responsible for the procurement in Taiwan)	150,000	17 March 2017 – 16 March 2020	0.04%
19. Li Di (李鐳)	Room 1003, Unit 1 Block 10 Wanfu Royal Palace Danghu Ave Pinghu, Zhejiang province, PRC	Executive officer and general manager of human resources & general affair department of PTC	150,000	17 March 2017 – 16 March 2020	0.04%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
20. Du Peng (杜鵬)	Room 402, Unit 2 Block 64, Qingfeng New Village Pingu Zhejiang province PRC	Executive officer and general manager of production department No. 1 of PTC	150,000	17 March 2017 – 16 March 2020	0.04%
21. Jin Ping (金平)	Room 701, Unit 2 Block 5, City Garden Xiao Gang Lu Donghu District Danghu Ave, Pinghu Zhejiang province PRC	General manager of engineering department of PTC	75,000	17 March 2017 – 16 March 2020	0.02%
22. Liu Changjin (劉長錦)	No. 2-13-6, Block 3 No. 121 Ke Yuan Er Jie, Jiulongpo Qu Chongqing shi PRC	Manager of sales department No. 1 of PTC's Chongqing branch	75,000	17 March 2017 – 16 March 2020	0.02%
23. Li Weiqiang (李偉強)	Room 502, Unit 3 Block 20, Nanyang New Village Danghu Ave, Pinghu Zhejiang province PRC	Deputy general manager of production department No. 2 of PTC	75,000	17 March 2017 – 16 March 2020	0.02%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
24. Zhang Jianfeng (張建峰) . . .	Room 401, Unit 1, Block 1, Famous City Jiayuan Pinghu Zhejiang province PRC	Deputy head of quality control department of PTC	75,000	17 March 2017 – 16 March 2020	0.02%
25. Zhou Junfeng (周軍鳳) . . .	Room 404, No. 194 Lane 333 Hong De Lu Shanghai PRC	Executive officer and general manager of production department No. 2 and spindle & unit production department of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
26. Shi Lei (史磊)	1112, Block 7 South Sai Mao Garden Pinghu Zhejiang province PRC	Deputy senior manager of product control department of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
27. Cao Jinping (曹金平) . . .	Room 601, Unit 2 Block 3, Xingzhou City Garden Pinghu Zhejiang province PRC	Deputy head of production department No. 2 of PTC	38,000	17 March 2017 – 16 March 2020	0.01%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
28. Shi Jixin (時繼新) . . .	Room 502, Unit 1 Block 17, 26 Gong Ye Road South Lixia District Jinan Shandong province PRC	Manager of sales department No. 1 of PTC's Qingdao branch	38,000	17 March 2017 – 16 March 2020	0.01%
29. Chen Jirong (陳紀榮) . . .	Room 1011, Xingzhou Sunshine City Holiday Apartment Pinghu Zhejiang province PRC	Deputy head of spindle & unit production department of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
30. Yin Jie (尹婕)	Room 701, No. 3 Lane 710, Cao Yang Lu Shanghai PRC	Manager of sales department No. 1 of PTC's Shanghai branch	38,000	17 March 2017 – 16 March 2020	0.01%
31. Hao Xiangdong (郝祥東) . . .	Room 505 Bin Shui Plaza Pinghu Zhejiang province PRC	Executive officer and deputy head of technology division of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
32. Chi Hui (池輝)	Room 1515, Xingzhou Sunshine City Danshen Apartment Pinghu Zhejiang province PRC	Executive officer and general manager of lathe & grinder production department of PTC	38,000	17 March 2017 – 16 March 2020	0.01%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
33. Gao Shenjian (高沈健) . . .	1516, Block 10 Xin Gang Wuxi Jiangsu province PRC	Manager of sales department No. 1 of PTC's Wuxi branch office, and manager of PTC's Wuhu	38,000	17 March 2017 – 16 March 2020	0.01%
34. Tao Weiwei (陶薇薇) . . .	Room 502, Unit 2 Block 17 Huafeng District Danghu Ave Pinghu Zhejiang province PRC	Manager of sales division of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
35. Huang Wei (黄薇)	Room 402, Unit 2 Block 21 Baihua Dongcun Nan He Tou Commune Danghu Ave Pinghu Zhejiang province PRC	Manager of finance department of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
36. Cai Donglin (蔡冬林) . . .	Room 501, Unit 1 Block 3 Meiyuanxicun Pinghu Zhejiang province PRC	Manager of research & development center of PTC	38,000	17 March 2017 – 16 March 2020	0.01%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
37. Wang Yingzhu (王英珠) . . .	Room 201, Block 6 Jinxuzhuangyuanhuating Danghu Ave Pinghu Zhejiang province PRC	Manager of audit office of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
38. Chen Xi (陳熙)	Room 703, Unit 2 Block 21 Shangjin Garden Pinghu Zhejiang province PRC	Deputy head of research & development center of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
39. Wang Chuanzhen (王川珍) . . .	2-1003, Block 2 Evergrande Metropolis Pinghu Zhejiang province PRC	Manager of finance department of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
40. Wang Jifeng (王繼峰) . . .	Room 202, Unit 3 Block 1, Yuanding New Village, Pinghu Zhejiang province PRC	Deputy head of spindle & unit production department of PTC	38,000	17 March 2017 – 16 March 2020	0.01%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
41. Lu Jinjian (陸金健) . . .	Room 802, Unit 2 Block 4 Meiguiwanxiaoqu Danghu Ave Pinghu Zhejiang province PRC	Manager of sales department No. 1 of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
42. Li Keng (李鏗)	Room 1102, Unit 1 Block 3, Xingzhou City Garden Pinghu Zhejiang province PRC	Manager of unit assembly department of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
43. Zhang Younan (章優楠) . . .	Room 102, Unit 2 Block 34, Xingzhou Donghu Garden Danghu Ave Pinghu Zhejiang province PRC	General manager of secretary office of PTC	38,000	17 March 2017 – 16 March 2020	0.01%
44. Leck Eng Teck Moses (陸嬰德) . . .	309, Unit 4, Block 2 He Xing Garden IV Ai Xin Lu, Longgang Central City Shenzhen Guangdong province PRC	Senior supervisor of sale department No. 2 of PTC	38,000	17 March 2017 – 16 March 2020	0.01%

<u>Name of Grantee</u>	<u>Address of Grantee</u>	<u>Position(s) of Grantee in our Group (Note 2)</u>	<u>Outstanding Pre-IPO Share Options/ Number of Shares subject to the option</u>	<u>Option period</u>	<u>Approximate percentage of issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the Pre-IPO Share Options is exercised)</u>
45. Li Huawen (李華文) . . .	Room 301, Unit 2 Block 11 Hupanjiayuan Zhejiang province PRC	Vice president of Shinagawa Precision	230,000	17 March 2017 – 16 March 2020	0.06%
46. Kene Ichikawa (市川健衛) . . .	New Yindu Hotel No. 339 Xingping 2nd Road, Pinghu Economic and Technology Development District Zhejiang province PRC	Advisor of production department No. 2 of PTC	75,000	17 March 2017 – 16 March 2020	0.02%
47. Guo Weimin (郭為民) . . .	Room 601, Unit 1 Block 6, Donghu Bandao, Donghu Ave Pinghu Zhejiang province PRC	Executive advisor and general manager of procurement department of PTC	310,000	17 March 2015 – 16 March 2020	0.086%
			<u>7,870,000</u>		

Notes:

- Ms. Wang Xiaojun is one of the Grantees. She is the spouse of Dr. Tang Donglei. Dr. Tang Donglei is deemed to be interested in the same number of Pre-IPO Share Options in which Ms. Wang Xiaojun is interested pursuant to the SFO.
- Please also refer to the section headed “Directors, Senior Management and Employees” for details of our Directors and senior management.

Other than disclosed above, our Company had also granted Pre-IPO Share Options for a total of 756,000 Shares to eight ex-employees of our Group. The eight employees who left our Group ceased to be eligible employees under the Pre-IPO Share Option Scheme, and as such, their Pre-IPO Share Options have lapsed.

As at the Latest Practicable Date, the above table is a complete list of all the Grantees of the options granted under the Pre-IPO Share Option Scheme which remained outstanding.

No other Pre-IPO Share Options have been or will be granted or have been agreed to be granted by our Company under the Pre-IPO Share Option Scheme. The Pre-IPO Share Option Scheme is invalid and ineffective upon the Listing Date after which no further options will be offered or granted.

Our Directors have confirmed that each of them will not exercise any options if, as a result of such exercise, our Company will not be able to comply with the public float requirements under Rule 8.08(1) of the Listing Rules.

D. Listing application for Shares to be issued under the Pre-IPO Share Option Scheme

All Pre-IPO Share Options were conditionally granted to the Grantees on 14 March 2014. Application has been made to the Listing Committee for the listing of, and permission to deal in, our Shares which may fall to be issued pursuant to the exercise of the outstanding Pre-IPO Share Options, on the Stock Exchange.

9. OTHER INFORMATION

A. Tax and other indemnities

Our Controlling Shareholder entered into the Deed of Indemnity referred to in the paragraph headed “5. Further Information about our business – A. Summary of our material contracts” in this Appendix in favour of our Company, for itself and as trustee for each of the subsidiaries of our Company, to provide indemnities in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received, estate duty, as well as any penalties and claims to which our Company or any subsidiaries of our Company may be subject on or before the date on which the conditions set out in the section headed “Structure and Conditions of the Global Offering – Conditions of the Global Offering” in this prospectus are fulfilled.

B. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries.

C. Litigation

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries were involved in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group.

D. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares which may fall to be allotted and issued pursuant to the Capitalisation Issue, the exercise of the Over-allotment Option and the outstanding Pre-IPO Share Options.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fees are HK\$7.8 million and are payable by our Company.

E. Compliance adviser

In accordance with the requirements of the Listing Rules, our Company has appointed Halcyon Capital Limited as our compliance adviser upon Listing. Please refer to the section headed "Directors, Senior Management and Employees – Compliance adviser" in this prospectus.

F. Preliminary expenses

Our estimated preliminary expenses are approximately US\$4,600.0 (equivalent to approximately HK\$35,723.6) and are payable by our Company.

G. Promoter

Our Company has no promoter for the purposes of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

H. Taxation of holders of Shares**(a) Hong Kong**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) The Cayman Islands

Under the present Cayman Islands law, there is no stamp duty payable in Cayman Islands on transfers of Shares.

(c) Consultation with professional advisers

Potential investors and intending holders of our Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering accept responsibility for any tax effect on, or liabilities of, any person resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

I. Qualification of experts

The qualifications of the experts, as defined under the Listing Rules, who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

Name	Qualification
Halcyon Capital Limited	Licensed corporation under the SFO permitted to carry out Type 6 (advising on corporate finance) regulated activity
Ernst & Young	Certified Public Accountants
Grandall Law Firm (Shanghai)	PRC Legal Advisers
City-Yuwa Partners	Japanese Legal Advisers
Maples and Calder (Hong Kong) LLP	Cayman Islands legal advisers
DTZ Cushman & Wakefield Limited	Property valuer
Frost & Sullivan	Industry consultant

J. Consents of experts

Each of Halcyon Capital Limited, Ernst & Young, Grandall Law Firm (Shanghai), City-Yuwa Partners, Maples and Calder (Hong Kong) LLP, DTZ Cushman & Wakefield Limited and Frost & Sullivan has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included in this prospectus the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

K. Particulars of Selling Shareholder

Name	Description	Registered Office	Number of Sale Shares
Tsugami Japan	our Controlling Shareholder, a Japanese company listed on the Tokyo Stock Exchange	12-20, Tomizawa-cho, Nihonbashi, Chuo-ku, Tokyo 103-0006, Japan	30,000,000

L. No material adverse change

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position since 31 March 2017 (being the date to which the latest audited consolidated financial statements of our Group were made up).

M. Share register

The principal register of our Company will be maintained in the Cayman Islands by Maples Fund Services (Cayman) Limited and a branch share register will be maintained in Hong Kong by Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with, and registered by, Tricor Investor Services Limited and may not be lodged in the Cayman Islands.

N. Miscellaneous

Save as disclosed in this prospectus:

- (a) none of our Directors nor any of the parties listed in the paragraph headed "9. Other information – J. Consents of experts" in this Appendix has any direct or indirect interest in the promotion of our Company or any of the subsidiaries, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to our Company or any of the subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of the subsidiaries;
- (b) none of our Directors nor any of the parties listed in the paragraph headed "9. Other information – J. Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business;
- (c) none of the equity and debt securities of our Company or any of our subsidiaries is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought from any other stock exchange;

- (d) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (e) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (f) our Company has not issued or agreed to issue any founder, management or deferred shares;
- (g) our Company has no outstanding convertible debt securities or debentures;
- (h) within the two years preceding the date of this prospectus, (i) no commission, discounts, brokerages or other special items have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries and (ii) our Company or any of our subsidiaries has not issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
- (i) within the two years preceding the date of this prospectus, no commission has been paid or payable (except for commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in or debentures of our Company;
- (j) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (k) there is no arrangement under which future dividends are waived or agreed to be waived;
- (l) there are no procedures for the exercise of any right of pre-emption or the transfer of subscription rights;
- (m) as at the date of this prospectus, there is no restriction affecting the remittance of profits or repatriation of capital of our Company into Hong Kong from outside Hong Kong; and
- (n) the English text of this prospectus shall prevail over the Chinese text.

O. Binding effect

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

P. Bilingual prospectus

Pursuant to Rule 19.36(5) of the Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time at each place where this prospectus is distributed by or on behalf of our Company.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

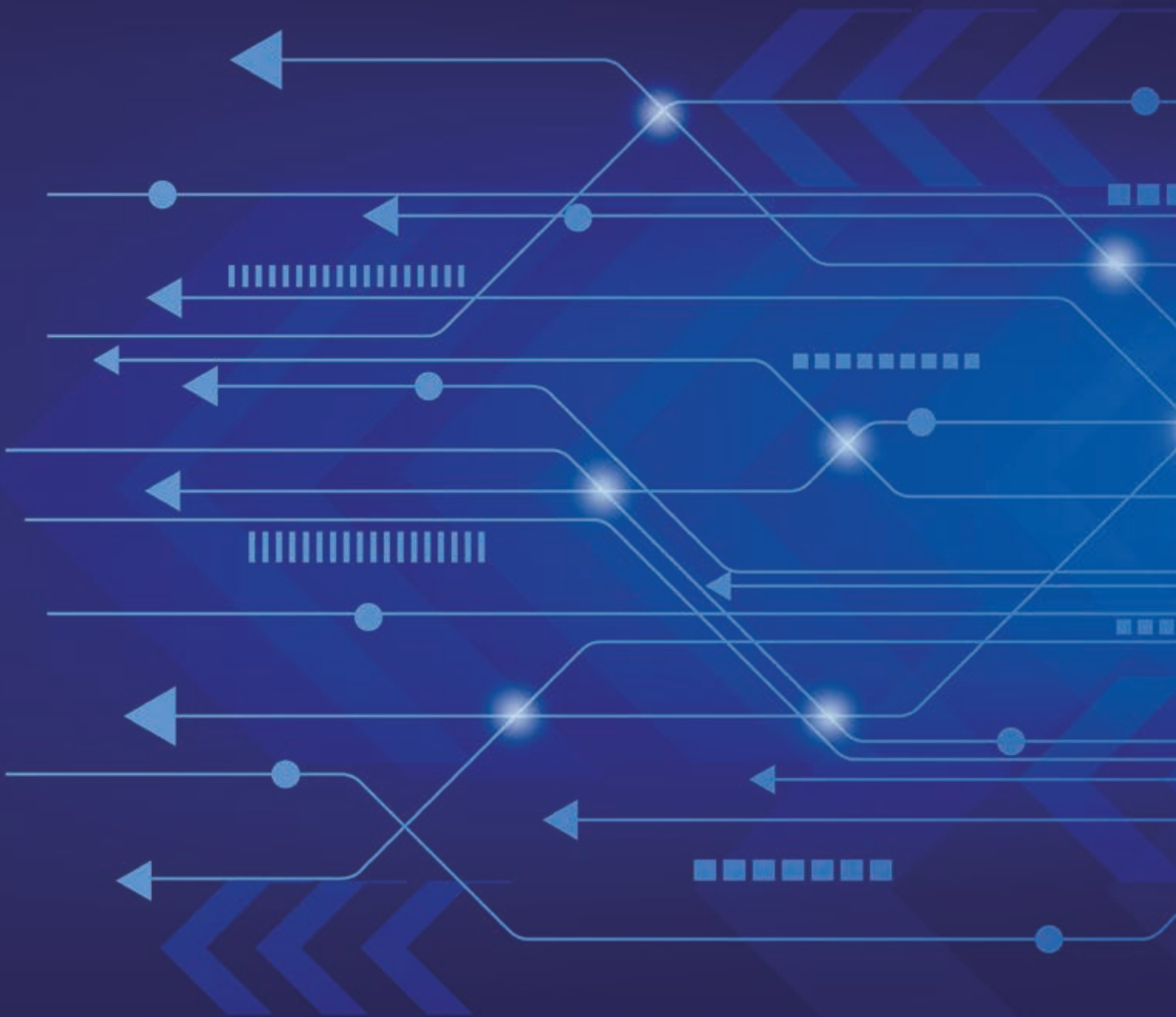
- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the written consents referred to in the section headed “Statutory and General Information – 9. Other information – J. Consents of experts” in Appendix V to this prospectus;
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information – 5. Further information about our business – A. Summary of our material contracts” in Appendix V to this prospectus; and
- (d) a copy of the statement of particulars of the Selling Shareholder.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Eversheds, 21/F Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the amended and restated Memorandum and Articles of Association;
- (b) the Accountants’ Report from Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the report from Ernst & Young in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the three years ended 31 March 2015, 2016 and 2017;
- (e) the letter and valuation certificate relating to our property interests prepared by DTZ Cushman & Wakefield Limited, the texts of which are set out in Appendix III to this prospectus;
- (f) the letter of advice from Maples and Calder (Hong Kong) LLP, our Cayman Islands legal advisers, summarising certain aspects of Cayman Companies Law referred to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus;

- (g) the legal opinion issued by Grandall Law Firm (Shanghai), our PRC Legal Advisers, in respect of general matters of our Group and our property interests in the PRC;
- (h) the legal opinion issued by City-Yuwa Partners, our Japanese Legal Advisers, in respect of certain areas of Japanese law;
- (i) the industry report prepared by Frost & Sullivan;
- (j) the Cayman Companies Law;
- (k) material contracts referred to in the section headed “Statutory and General Information – 5. Further Information about our business – A. Summary of our material contracts” in Appendix V to this prospectus;
- (l) service contracts and letters of appointment referred to in the section headed “Statutory and General Information – 7. Further information about our Directors – A. Directors’ service contracts” in Appendix V to this prospectus;
- (m) the written consents referred to in the section headed “Statutory and General Information – 9. Other information – J. Consents of experts” in Appendix V to this prospectus;
- (n) the list of all Grantees who have been granted Pre-IPO Share Options to subscribe Shares under the Pre-IPO Share Option Scheme, containing all details as required under the Listing Rules and the Companies (Winding up and Miscellaneous Provisions) Ordinance;
- (o) the rules of the Pre-IPO Share Option Scheme; and
- (p) the statement of particulars of the Selling Shareholder.



PRECISION TSUGAMI (CHINA) CORPORATION LIMITED
津上精密機床(中國)有限公司