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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this circular, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Precision Tsugami (China) Corporation Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed dealer, or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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## **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)**

### **CONTINUING CONNECTED TRANSACTIONS RENEWAL OF THE TECHNOLOGY LICENCE AGREEMENT, THE MASTER SALES AGREEMENT, THE MASTER PURCHASE AGREEMENT AND THE PROPOSED ANNUAL CAPS**

**Independent Financial Advisor to the Independent Board Committee and  
the Independent Shareholders**



**TUS Corporate  
Finance Limited**

**TUS Corporate Finance Limited**

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A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 19 to 20 of this circular. A letter from TUS Corporate Finance Limited, the Independent Financial Advisor, containing its advice and recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 36 of this circular.

A notice convening the EGM to be held at Admiralty Conference Centre, 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Monday, 30 March 2020 at 10:00 a.m. is set out on pages 41 to 42 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 48 hours before the time fixed for holding the EGM (or any adjournment thereof) to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

\* References to time and dates in this circular are to Hong Kong time and dates.

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the content requires otherwise:*

“Annual Caps”	collectively, the Technology Annual Caps, the Sales Annual Caps, and the Purchase Annual Caps;
“Board”	the board of Directors;
“CAGR”	compound annual growth rate;
“CNC”	the abbreviation for “computerised numerical control”;
“Company”	Precision Tsugami (China) Corporation Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“connected person”	has its meaning as given to it under the Listing Rules;
“controlling shareholder”	has its meaning as given to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve, among other things, (i) the renewal of the Existing Agreements; and (ii) the Annual Caps for the three years ending 31 March 2021, 31 March 2022 and 31 March 2023 by way of ordinary resolutions;
“Existing Agreements”	collectively, the Master Sales Agreement, Master Purchase Agreement and Technology Licence Agreement;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;

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## DEFINITIONS

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“Independent Board Committee”	the committee of the Board comprising all the independent non-executive Directors established to advise the Independent Shareholders as to voting at the EGM on, among other things, the resolutions approving the renewal of the Existing Agreements and the Annual Caps;
“Independent Financial Advisor”	TUS Corporate Finance Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and is the independent financial advisor to the Independent Board Committee and the Independent Shareholders in relation to the renewal of the Existing Agreements and the Annual Caps;
“Independent Shareholders”	Shareholders other than Tsugami Japan and its associates, Dr. Tang Donglei, and any other Shareholder(s) who are considered as materially interested in the renewal of the Existing Agreements and the transactions contemplated thereunder, including the Annual Caps;
“Independent Third Parties”	an individual(s) or a company(ies) who or which, as far as the Directors are aware after having made reasonable enquiries, is/are independent of and not connected with (within the meaning of the Listing Rules) the Company, any Director, chief executive or substantial shareholder of the Company, its subsidiaries or any of their respective associates;
“Latest Practicable Date”	4 March 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contain herein;
“Listing”	the listing of the shares of the Company on the Main Board of the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Master Purchase Agreement”	the master purchase agreement dated 4 September 2017 entered into between the Company and Tsugami Japan, the principal terms of which are summarized in this circular;

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## DEFINITIONS

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“Master Sales Agreement”	the master sales agreement dated 4 September 2017 entered into between the Company and Tsugami Japan, the principal terms of which are summarized in this circular;
“Other Markets”	markets outside the PRC and Taiwan;
“PRC”	People’s Republic of China, but for the purpose of this circular and for geographical reference only and except where the context requires otherwise, references in this circular to the “PRC” do not apply to Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Prospectus”	the prospectus of the Company dated 12 September 2017;
“Purchase Annual Caps”	the proposed annual cap amounts in respect of the transactions contemplated under the Master Purchase Agreement for the three years ending 31 March 2021, 2022 and 2023;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sales Annual Caps”	the proposed annual cap amounts in respect of the transactions contemplated under the Master Sales Agreement for the three years ending 31 March 2021, 2022 and 2023;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Technology”	technical information and related intellectual property rights of Tsugami Japan for manufacturing certain types of CNC high precision machine tools of the Company and to provide aftersales services in connection with these products;
“Technology Annual Caps”	the proposed annual cap amounts in respect of the transactions contemplated under the Technology Licence Agreement for the three years ending 31 March 2021, 2022 and 2023;

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## DEFINITIONS

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“Technology Licence Agreement”	the technology licence agreement dated 4 September 2017 entered into between the Company and Tsugami Japan, the principal terms of which are summarized in this circular;
“Third-party Components”	parts and components which are manufactured by third-party suppliers and procured from Tsugami Japan, excluding CNC system panels;
“Trademark(s)”	the trademarks licensed by Tsugami Japan to the Company from time to time pursuant to the Technology Licence Agreement;
“TSUGAMI brand”	Tsugami brand denoted by the trademark <b>TSUGAMI</b> ;
“Tsugami Japan”	Tsugami Corporation (株式会社ツガミ), the controlling shareholder of the Company, a Japanese company incorporated in March 1937 and which is listed on the Tokyo Stock Exchange;
“Tsugami Japan Group”	Tsugami Japan and its subsidiaries (other than the Group).

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## LETTER FROM THE BOARD

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### **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)**

*Executive Directors:*

Dr. Tang Donglei (*Chief executive officer*)

Mr. Li Zequn

*Non-executive Directors:*

Mr. Takao Nishijima (*Chairman*)

Ms. Mami Matsushita

Mr. Manabu Tanaka

*Independent Non-executive Directors:*

Dr. Huang Ping

Dr. Eiichi Koda

Mr. Tam Kin Bor

*Registered Office:*

PO Box 309

Ugland House

Grand Cayman

KY 1-1104

Cayman Islands

*Principal Place of business  
in Hong Kong:*

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

11 March 2020

*To Shareholders,*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
RENEWAL OF THE TECHNOLOGY LICENSE AGREEMENT,  
THE MASTER SALES AGREEMENT,  
THE MASTER PURCHASE AGREEMENT AND  
THE PROPOSED ANNUAL CAPS**

#### **INTRODUCTION**

Reference is made to the announcement of the Company dated 19 February 2020, the circular of the Company dated 12 February 2018 and the Prospectus in relation to, among other things, the Existing Agreements. The Existing Agreements are for a term of three years commencing from 25 September 2017 and expiring on 31 March 2020, which will be automatically renewed for successive periods of three years thereafter unless terminated in accordance with the Existing Agreements.

The Company and Tsugami Japan agreed to renew the Existing Agreements upon the expiry of their initial term on 31 March 2020 for a further term of three years, i.e. up to and including 31 March 2023. There has been no change in the terms of the Existing Agreements since they were entered into on 4 September 2017.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) principal terms of, and information relating to the renewal of the Existing Agreements; (ii) information relating to the Annual Caps for the three years ending 31 March 2021, 31 March 2022 and 31 March 2023; (iii) a letter from the Independent Board Committee, which sets out the recommendations of the Independent Board Committee to the Independent Shareholders in relation to the renewal of the Existing Agreements and the Annual Caps; (iv) a letter from the Independent Financial Advisor, which sets out the opinions and recommendations of the Independent Financial Advisor to the Independent Board Committee and Independent Shareholders in relation to the renewal of the Existing Agreements and the Annual Caps; and (v) a notice to convene the EGM.

### RENEWAL OF THE EXISTING AGREEMENTS

#### (A) Renewal of the Technology Licence Agreement

On 4 September 2017, the Company and Tsugami Japan entered into the Technology Licence Agreement for a term of three years commencing from 25 September 2017 to 31 March 2020, which will be automatically renewed for successive periods of three years thereafter unless notified by the 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.

The Company and Tsugami Japan agreed to renew the Technology Licence Agreement upon the expiry of its initial term on 31 March 2020 for a further term of three years, i.e. up to and including 31 March 2023. There has been no change in the terms of the Technology Licence Agreement since it was entered into on 4 September 2017.

The principal terms of the Technology Licence Agreement are summarized below:

Date	:	4 September 2017
Parties	:	(a) the Company (b) Tsugami Japan
Duration	:	The Technology Licence Agreement shall, upon renewal, continue to be effective up to and including 31 March 2023, which may be automatically renewed for successive periods of three years thereafter unless notified by the 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.



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## LETTER FROM THE BOARD

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Continuing transactions : Tsugami Japan agreed to irrevocably grant to the Company:

- (a) an exclusive licence to use the Technology necessary for the manufacture of the CNC high precision machine tools of the Company and to provide aftersales services in connection with these products; and
- (b) 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).

### *Pricing guideline*

Depending on the models of the Company's CNC high precision machine tools, the Trademarks and Technology license 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).

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.

### **(B) Renewal of the Master Sales Agreement**

On 4 September 2017, the Company and Tsugami Japan entered into the Master Sales Agreement for a term of three years commencing from 25 September 2017 to 31 March 2020, which will be automatically renewed for successive periods of three years thereafter unless terminated, amongst other matters, by either party with not less than 30 business days' prior written notice, subject to compliance of the Listing Rules.

The Company and Tsugami Japan agreed to renew the Master Sales Agreement upon the expiry of its initial term on 31 March 2020 for a further term of three years, i.e. up to and including 31 March 2023. There has been no change in the terms of the Master Sales Agreement since it was entered into on 4 September 2017.

The principal terms of the Master Sales Agreement are summarized below:

Date : 4 September 2017

Parties : (a) the Company  
(b) Tsugami Japan

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## LETTER FROM THE BOARD

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- Duration : The Master Sales Agreement shall, upon renewal, continue to be effective up to and including 31 March 2023, which may be automatically renewed for successive periods of three years thereafter unless terminated, amongst other matters, by either party with not less than 30 business days' prior written notice, subject to compliance of the Listing Rules.
- Continuing transactions : The Group agreed to sell its CNC high precision machine tools to the Tsugami Japan Group.

### *Pricing guideline*

The transactions contemplated under the Master Sales Agreement will be conducted in the ordinary and usual course of business of the 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 the Group and the Shareholders as a whole. The selling price 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.

The Group sold its CNC high precision machine tools, with or without customisations, to the Tsugami Japan Group. In determining the selling prices of the CNC high precision machine tools sold to the Tsugami Japan Group, the Company will consider factors including the level of customisations, time and effort required for making various specifications and/or customisations to the CNC high precision machine tools, purchase quantity, the delivery schedule, whether sales and marketing, aftersales services and technical support services are needed, etc. No special discount will be offered to the Tsugami Japan Group by virtue of the fact that the Tsugami Japan Group is a connected person of the Company. After taking into account the above factors, the Company will provide a quotation which is comparable to at least two transactions with independent third party customers of similar products for the same period.

To ensure the transactions conducted pursuant to the Master Sales Agreement are priced fairly and reasonably and in the interests of the Group and its Shareholders as a whole, the Company has adopted the following internal control measures:

1. The finance department of the Company will be responsible for gathering information from time to time about the prevailing market prices and the market trend for comparable products through various channels, including, for example, conducting market price research through various independent industry information websites, discussing with third party industry players and attending events held by industry associations;
2. The Company will analyse and compare the prevailing market prices for comparable products in the market with the selling prices of the CNC high precision machine tools offered to the Tsugami Japan Group;

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## LETTER FROM THE BOARD

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3. The Company will consider at least two comparable transactions with the independent third party customers of similar products for the same period to ensure no better terms are offered to the Tsugami Japan Group; and
4. The finance department of the Company will conduct regular checks on the sales transactions with the Tsugami Japan Group, monitoring the amounts of transactions and conducting assessment and evaluation on the fairness of the transaction terms and pricing terms.

### **(C) Renewal of the Master Purchase Agreement**

On 4 September 2017, the Company and Tsugami Japan entered into the Master Purchase Agreement for a term of three years commencing from 25 September 2017 to 31 March 2020, which will be automatically renewed for successive periods of three years thereafter unless terminated, amongst other matters, by either party with not less than 30 business days' prior written notice, subject to compliance of the Listing Rules.

The Company and Tsugami Japan agreed to renew the Master Purchase Agreement upon the expiry of its initial term on 31 March 2020 for a further term of three years, i.e. up to and including 31 March 2023. There has been no change in the terms of the Master Purchase Agreement since it was entered into on 4 September 2017.

The principal terms of the Master Purchase Agreement are summarized below:

Date	:	4 September 2017
Parties	:	(a) the Company (b) Tsugami Japan
Duration	:	The Master Purchase Agreement shall, upon renewal, continue to be effective up to and including 31 March 2023, which may be automatically renewed for successive periods of three years thereafter unless terminated, among other matters, by either party with not less than 30 business days' prior written notice, subject to the compliance of the Listing Rules.
Continuing transactions	:	The Group 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.

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## LETTER FROM THE BOARD

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### *Pricing guideline*

The transactions contemplated under the Master Purchase Agreement will be conducted in the ordinary and usual course of business of the 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 the Group and its Shareholders as a whole.

In respect of the parts and components which are manufactured by independent third party suppliers but procured from the Tsugami Japan Group (including the Third-party Components and CNC system panels for the CNC high precision machine tools sold or to be sold overseas (including in Taiwan)), such products are sold to the Group at cost incurred by the Tsugami Japan Group in purchasing such products from the independent third party suppliers plus certain handling and administrative charges.

In respect of the parts and components, production machinery and equipment and CNC high precision machine tools which are manufactured and uniquely designed for the Group's needs by the Tsugami Japan Group, such products are sold to the Group at cost incurred by the Tsugami Japan Group in developing and manufacturing such products plus certain handling and administrative charges.

To ensure the transactions conducted pursuant to the Master Purchase Agreement are priced fairly and reasonably and in the interests of the Group and its Shareholders as a whole, the Company has adopted the following internal control measures:

1. In respect of the parts and components which are manufactured by independent third party suppliers but procured from the Tsugami Japan Group:
  - (i) The finance department of the Company will be responsible for gathering information from time to time about the market prices offered by the independent third party suppliers and the market trend for comparable parts and components through various channels including, for example, conducting market price research through various independent industry information websites, discussing with third party industry players and attending events held by industry associations;
  - (ii) Before making the purchase orders, the Company will obtain at least two quotations from the independent third party suppliers and/or review two comparable transactions with independent third party suppliers for the same period;
  - (iii) The Company will compare whether the purchase prices offered by the Tsugami Japan Group are at a more favourable level than the prices offered by the independent third party suppliers;
  - (iv) If the purchase prices offered by the Tsugami Japan Group are not at a relatively competitive level, the Company will purchase such parts and components directly from the independent third party suppliers;

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## LETTER FROM THE BOARD

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2. In respect of the parts and components, production machinery and equipment and CNC high precision machine tools which are manufactured and uniquely designed for the Group's needs by the Tsugami Japan Group:
  - (i) The Company will explore whether the Company has the production, customisation and development capabilities to develop and manufacture such products;
  - (ii) The Company will compare the time and costs incurred by the Company if the Company directly develops and manufactures such products with the purchase prices offered by the Tsugami Japan Group;
  - (iii) The Directors will carry out due and careful enquiries with the management of the Tsugami Japan Group in relation to the costs incurred by the Tsugami Japan Group in developing and manufacturing such products;
  - (iv) If the purchase prices offered by the Tsugami Japan Group are not at a relatively competitive level, the Company will develop and manufacture such products directly;
  - (v) The procurement department of the Company will be responsible for gathering information from time to time whether there are alternative suppliers who can design and manufacture such parts and components and production machinery and equipment which suit the Company's needs at a competitive pricing level; and
3. The finance department of the Company will conduct regular checks on the purchase transactions with the Tsugami Japan Group, monitoring the amounts of transactions and conducting assessment and evaluation on the fairness of the transaction terms and pricing terms.

### **HISTORICAL TRANSACTION AMOUNTS AND THE ANNUAL CAPS**

#### **(A) The Technology Licence Agreement**

For the two years ended 31 March 2018 and 2019 and the six months ended 30 September 2019, the Company's Trademarks and Technology licence fees and aftersales service fees paid to Tsugami Japan amounted to, in aggregate, approximately RMB107.5 million, RMB128.5 million and RMB50.0 million, respectively.

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## LETTER FROM THE BOARD

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The Technology Annual Caps for the three years ending 31 March 2021, 31 March 2022 and 31 March 2023 are set out below:

	<b>For the year ending 31 March 2021 RMB (million)</b>	<b>For the year ending 31 March 2022 RMB (million)</b>	<b>For the year ending 31 March 2023 RMB (million)</b>
Technology Annual Caps	129.0	161.0	193.0

### ***Basis for the Technology Annual Caps***

In determining the Technology Annual Caps, the Directors considered (i) the historical Trademarks and Technology licence fees paid to Tsugami Japan for the two years ended 31 March 2018 and 2019 and the six months ended 30 September 2019; (ii) the royalty rate of 1.0% or 5.0% and the aftersales services fee payable to Tsugami Japan pursuant to the Technology Licence Agreement; (iii) the projected growth for the sales of the CNC high precision machine tools of the Group for the three years ending 31 March 2021, 2022 and 2023; and (iv) the estimated increase in market price of or demand for the CNC high precision machine tools of the Group for the three years ending 31 March 2021, 2022 and 2023.

As the Trademarks and Technology licence fees payable to Tsugami Japan shall be calculated based on the royalty rate multiplied by the total sales of the CNC high precision machine tools, the Trademarks and Technology licence fees is highly correlated to the overall sales performance of the Group. In this regard, considering the sales projections and expected demand for its CNC high precision machine tools both in the PRC and in the Other Markets for the three years ending 31 March 2023 as explained in the paragraphs “(B) The Master Sales Agreement – Basis for the Sales Annual Caps” and “(C) The Master Purchase Agreement – Basis for the Purchase Annual Caps” below, the Company has set the Technology Annual Caps at a similar year-on-year growth rate as that of the Sales Annual Caps and the Purchase Annual Caps. Based on the above, the Board considers the basis for the Technology Annual Caps is fair and reasonable.

### **(B) The Master Sales Agreement**

For the two years ended 31 March 2018 and 2019 and the six months ended 30 September 2019, the Group’s total sales of its CNC high precision machine tools to the Tsugami Japan Group amounted to approximately RMB634.5 million, RMB822.7 million and RMB248.1 million, respectively.

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## LETTER FROM THE BOARD

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The Sales Annual Caps for the three years ending 31 March 2021, 31 March 2022 and 31 March 2023 are set out below:

	<b>For the year ending 31 March 2021 RMB (million)</b>	<b>For the year ending 31 March 2022 RMB (million)</b>	<b>For the year ending 31 March 2023 RMB (million)</b>
Sales Annual Caps	840.0	1,050.0	1,260.0

### *Basis for the Sales Annual Caps*

In determining the Sales Annual Caps, the Directors considered (i) the historical sales amounts for the CNC high precision machine tools of the Group to the Tsugami Japan Group for the two years ended 31 March 2018 and 2019 and the six months ended 30 September 2019; (ii) the expected demand for the CNC high precision machine tools of the Group from the Tsugami Japan Group for the three years ending 31 March 2021, 2022 and 2023; and (iii) the estimated increase in market price of the CNC high precision machine tools of the Group for the three years ending 31 March 2021, 31 March 2022 and 31 March 2023.

As disclosed in the interim results announcement for the six months ended 30 September 2019 of the Company dated 12 November 2019, the total revenue of the Group has decreased for approximately 34.5% comparing to the six months ended 30 September 2018, primarily due to the decrease in the demand for its products, for example, precision lathes and precision grinding machines under the influence of various macroeconomic uncertainties, including those caused by trade disputes between China and United States and downturn in automobile industry. It is contemplated that the recent outbreak of the novel coronavirus pneumonia in the PRC will further strain the total revenue of the Group for the year ending 31 March 2020. Notwithstanding the above, the Board believes that (i) the coronavirus outbreaks are not expected to have a prolonged impact on the operations of the Group and the Group has endeavoured to maintain business operation of the Group while implementing various measures to ensure the health and safety of its employees; (ii) the trade disputes between China and United States are less intense; (iii) the downturn of the automobile industry has cyclical changes and the correction of the financial performance was within the expectations of the Company. In this regard, the Company expects the sales revenue of the Group for the year ending 31 March 2021 can resume to a similar level as the year ended 31 March 2019. After the cyclical changes in the automobile industry, the Company considers that with the trend of energy saving and emission control in the automobile market, there will be an expected increasing demand for CNC high precision machine tools in the PRC automobile industry for the three years ending 31 March 2023. Furthermore, the Company also expects there will be an upward adjustment of the selling price of its CNC high precision machine tools in view of general increasing cost of production (including but not limited to labour and raw material cost). Based on the above, the Board considers the basis for the Sales Annual Caps is fair and reasonable.

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## LETTER FROM THE BOARD

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### (C) The Master Purchase Agreement

For the two years ended 31 March 2018 and 2019 and the six months ended 30 September 2019, the Group 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 RMB295.0, RMB236.5 million and RMB79.8 million, respectively.

The Purchase Annual Caps for the three years ending 31 March 2021, 31 March 2022 and 31 March 2023 are set out below:

	<b>For the year ending 31 March 2021 <i>RMB (million)</i></b>	<b>For the year ending 31 March 2022 <i>RMB (million)</i></b>	<b>For the year ending 31 March 2023 <i>RMB (million)</i></b>
Purchase Annual Caps	358.0	448.0	538.0

#### ***Basis for the Purchase Annual Caps***

In determining the Purchase Annual Caps, the Directors considered (i) the historical purchase costs paid to Tsugami Japan for the two years ended 31 March 2018 and 2019 and the six months ended 30 September 2019; (ii) the projected growth for the sales of the CNC high precision machine tools of the Group for the three years ending 31 March 2021, 2022 and 2023; (iii) the expected demand for 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 to cope with the Group's projected growth for the sales of its CNC high precision machine tools; and (iv) the estimated increase in production costs of parts and components and production machinery and equipment and CNC high precision machine tools.

The expected demands for procurement from Tsugami Japan Group follows a linear relationship with the overall sales performance of the Group. Taking into account the expected growth of revenue of the Group for the three years ending 31 March 2023 as explained in "(B) The Master Sales Agreement – Basis for the Sales Annual Caps" above, the Company believed there will be, in particular, an increase in demand for parts and components and production machinery and equipment to meet the comeback of sales volume of the CNC high precision machine tools for the year ending 31 March 2021. Further, having considered the expansion and renovation of production plant four of the Group has completed in March 2019 and the first phase and second phase construction works in relation to the Anhui production plants is expected to complete in December 2021, the Group's production capacity will significantly increase and it is fair and reasonable for the Group to upward adjust its sales targets and projections and correspondingly the Purchase Annual Caps to allow the Group to realise the Group's business potential. Based on the above, the Board considers the basis for the Purchase Annual Caps is fair and reasonable.



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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF RENEWAL OF THE EXISTING AGREEMENTS

In respect of the renewal of the Technology Licence Agreement, the Directors believe that licensing the Trademarks and the Technology from and provision of aftersales services by Tsugami Japan is fair and reasonable and it is in the interests of the Group and the Shareholders as a whole to renew the Technology Licence Agreement for the following reasons: (i) the Group can continue to leverage on Tsugami Japan's expertise and advanced technology in the CNC high precision machine tool industry and developed aftersales services; (ii) currently the Company is still at the stage of enhancing its customisation and development capabilities and does not have full capacity to develop the Technology itself; (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) the Group can continue to enjoy the goodwill of the TSUGAMI brand, which has been widely recognised by manufacturers engaged in various industries.

In respect of the renewal of the Master Sales Agreement, the Directors believe that the continuing sales to the Tsugami Japan Group will provide the Group with stable source of income and the renewal of the Master Sales Agreement is fair and reasonable and it is in the interests of the Group and the Shareholders as a whole.

In respect of the renewal of the Master Purchase Agreement, the Directors are of the view that it is fair and reasonable and in the interests of the Group and the Shareholders as a whole to renew the Master Purchase Agreement for the following reasons: (i) certain parts and components, production machinery and equipment and CNC high precision machine tools are manufactured and uniquely designed for the Group's needs by the Tsugami Japan Group; (ii) certain parts and components which are manufactured by independent third party suppliers but procured from the Tsugami Japan Group are sold to the Group at terms better than those offered by such independent third party suppliers. In addition, Tsugami Japan has undertaken not to, and will use its best efforts to procure its close associate (other than the Group) not to, sell CNC high precision machine tools in the PRC, Taiwan and other markets which the Group may intend to develop in the future. In the event that the Tsugami Japan Group receives purchase orders for its CNC high precision machine tools in the PRC or Taiwan, the Group will purchase such CNC high precision machine tools from the Tsugami Japan Group to service such purchase orders.

The Directors (including the independent non-executive Directors) consider that the renewal of the Existing Agreements have been negotiated on an arm's length basis, are fair and reasonable, on normal commercial terms and within the ordinary and usual course of business of the Group, and are in the interests of the Group and the Shareholders as a whole, and that the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### INFORMATION OF THE COMPANY

The Company is an established foreign-owned CNC high precision machine tool manufacturer in the PRC. The principal activities of the Group are the manufacture and sales of a wide range of CNC high precision machine tools under the TSUGAMI brand based in the PRC.

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## LETTER FROM THE BOARD

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### INFORMATION OF TSUGAMI JAPAN

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. The Tsugami Japan Group primarily engages in the design, research, development, manufacture and sales of machine tools.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Tsugami Japan is the controlling shareholder of the Company and therefore, members of the Tsugami Japan Group are connected persons of the Company. The renewal of the Existing Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of each of the Technology Annual Caps, the Sales Annual Caps and the Purchase Annual Caps, respectively is 5% or above, the renewal of the Existing Agreements and the Annual Caps are subject to reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Dr. Tang Donglei, Mr. Takao Nishijima, Ms. Mami Matsushita and Mr. Manabu Tanaka hold directorship or senior management positions with Tsugami Japan and are considered as materially interested in the renewal of the Existing Agreements and the transactions contemplated thereunder, including the Annual Caps, each of Dr. Tang Donglei, Mr. Takao Nishijima, Ms. Mami Matsushita and Mr. Manabu Tanaka has abstained from voting on the relevant board resolutions approving the renewal of the Existing Agreements and the Annual Caps. Save as disclosed above, none of the Directors has a material interest in the renewal of the Existing Agreements and the transactions contemplated thereunder, including the Annual Caps.

As Dr. Tang Donglei has interests in 150,000 Shares, representing approximately 0.03% of the issued share capital of the Company, he will not vote at the EGM. Each of Mr. Takao Nishijima, Ms. Mami Matsushita and Mr. Manabu Tanaka does not hold any Shares and therefore, none of them are expected to vote at the EGM.

### GENERAL

The EGM will be held for the Independent Shareholders to consider and, if thought fit, among other things, to approve the renewal of the Existing Agreements and the Annual Caps for the three years ending 31 March 2021, 31 March 2022 and 31 March 2023 by way of ordinary resolutions.

A notice convening the EGM to be held at Admiralty Conference Centre, 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Monday, 30 March 2020 at 10:00 a.m. is set out on pages 41 to 42 of this circular.

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## LETTER FROM THE BOARD

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A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 48 hours before the time fixed for holding the EGM (or any adjournment thereof) to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

As at the Latest Practicable Date, Tsugami Japan and its associates controlled, and were entitled to exercise control, over the voting rights in respect of 270,000,000 Shares, representing approximately 70.8% of the issued share capital of the Company. Tsugami Japan and its associates shall, therefore, abstain from voting on the resolutions for approving the renewal of the Existing Agreements and the Annual Caps. To the best of the Directors' knowledge and information after having made all reasonable enquiries, other than Tsugami Japan and/or its associates and Dr. Tang Donglei, no other Shareholder is required to abstain from voting at the EGM for the proposed resolutions approving the renewal of the Existing Agreements and the Annual Caps.

The votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM.

### **CLOSURE OF REGISTER OF MEMBERS OF THE COMPANY**

The register of members of the Company will be closed from Wednesday, 25 March 2020 to Monday, 30 March 2020 (both days inclusive) during which period no transfer of Share(s) will be effected. In order to determine the entitlement to attend and vote at the EGM, all transfers of Share(s), accompanied by the relevant share certificate(s) with the properly completed transfer form(s) either overleaf or separately, must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 24 March 2020. Shareholders whose names appear on the register of the Shareholders of the Company on Wednesday, 25 March 2020 will be entitled to attend and vote at the EGM.

### **RECOMMENDATIONS**

Your attention is drawn to the letter from the Independent Board Committee set out on pages 19 to 20 of this circular which contains its recommendation to the Independent Shareholders. In addition, your attention is drawn to the letter of advice from the Independent Financial Advisor set out on pages 21 to 36 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons considered by it in formulating its advice.

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## LETTER FROM THE BOARD

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The Independent Board Committee, having taken into account the advice of the Independent Financial Advisor, considers that the renewal of the Existing Agreements are in the ordinary and usual course of business of the Company, fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole, and that the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve, among other things, the renewal of the Existing Agreements and the Annual Caps.

### ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendix to this circular and the notice of the EGM set out in this circular.

By order of the Board  
**Precision Tsugami (China) Corporation Limited**  
**Dr. Tang Donglei**  
*Chief Executive Officer and Executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is a full text of the letter from the Independent Board Committee to the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*

### **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)**

11 March 2020

*To the Independent Shareholders,*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
RENEWAL OF THE TECHNOLOGY LICENCE AGREEMENT,  
THE MASTER SALES AGREEMENT,  
THE MASTER PURCHASE AGREEMENT AND  
THE PROPOSED ANNUAL CAPS**

We refer to the circular of the Company dated 11 March 2020 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been authorised by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the renewal of the Existing Agreements are in the ordinary and usual course of business of the Company, fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole, and that the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from the Independent Financial Advisor set out on pages 21 to 36 of the Circular which contains its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons considered by it in formulating its advice.

Having considered the renewal of the Existing Agreements and the Annual Caps, and the factors and reasons considered by, and the advice of the Independent Financial Advisor in relation thereto as set out on pages 21 to 36 of the Circular, we are of the opinion that the renewal of the Existing Agreements are in the ordinary and usual course of business of the Company, fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole, and that the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the renewal of the Existing Agreements and the Annual Caps.

Yours faithfully,

For and on behalf of

**the Independent Board Committee**

**Dr. Huang Ping**

**Dr. Eiichi Koda**

**Mr. Tam Kin Bor**

*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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*The following is the full text of a letter of advice from TUS Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders in relation to the renewal of the Technology Licence Agreement, the Master Sales Agreement, the Master Purchase Agreement and the proposed Annual Caps, which has been prepared for the purpose of inclusion in this circular.*



15/F, Shanghai Commercial Bank Tower,  
12 Queen's Road Central,  
Central, Hong Kong

11 March 2020

*To: The Independent Board Committee and the Independent Shareholders of  
Precision Tsugami (China) Corporation Limited*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS  
RENEWAL OF THE TECHNOLOGY LICENCE AGREEMENT,  
THE MASTER SALES AGREEMENT,  
THE MASTER PURCHASE AGREEMENT AND  
THE PROPOSED ANNUAL CAPS**

### INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the renewal of the Technology Licence Agreement, the Master Sales Agreement, the Master Purchase Agreement and the proposed Annual Caps, for the three years ending 31 March 2023, respectively, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 11 March 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

References are made to the announcement of the Company dated 19 February 2020, the circular of the Company dated 12 February 2018 and the Prospectus in relation to, among other things, the Existing Agreements. The Existing Agreements are for a term of three years commencing from 25 September 2017 and expiring on 31 March 2020, which will be automatically renewed for successive periods of three years thereafter unless terminated in accordance with the Existing Agreements. The Company and Tsugami Japan agreed to renew the Existing Agreements upon the expiry of their initial term on 31 March 2020. Subject to the compliance of the Listing Rules by the Company, the Existing Agreements will be renewed for a further term of three years, i.e. up to and including 31 March 2023. There has been no change in the terms of the Existing Agreements since they were entered into on 4 September 2017.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As at the date of this letter, Tsugami Japan is the controlling shareholder of the Company and therefore, members of the Tsugami Japan Group are connected persons of the Company. The renewal of the Existing Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of each of the Technology Annual Caps, the Sales Annual Caps and the Purchase Annual Caps, respectively is 5% or above, the renewal of the Existing Agreements and the proposed Annual Caps are subject to reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Dr. Tang Donglei, Mr. Takao Nishijima, Ms. Mami Matsushita and Mr. Manabu Tanaka hold directorship or senior management positions with Tsugami Japan and are considered as materially interested in the renewal of the Existing Agreements and the transactions contemplated thereunder, including the proposed Annual Caps, each of Dr. Tang Donglei, Mr. Takao Nishijima, Ms. Mami Matsushita and Mr. Manabu Tanaka has abstained from voting on the relevant board resolutions approving the renewal of the Existing Agreements and the proposed Annual Caps. Save as disclosed above, none of the Directors has a material interest in the renewal of the Existing Agreements and the transactions contemplated thereunder, including the proposed Annual Caps.

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all three independent non-executive Directors, namely, Dr. Huang Ping, Dr. Eiichi Koda and Mr. Tam Kin Bor, has been formed to consider and advise the Independent Shareholders as to whether the renewal of the Existing Agreements and the proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. We, TUS Corporate Finance Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal advisory fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of renewal of the Existing Agreements and the proposed Annual Caps.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the information, facts and representations contained or referred to in the Circular and the information, opinions and representations provided or expressed to us by the Directors and/or the management of the Company. We have assumed that all information, facts and representations contained or referred to in the Circular, and all information, opinions and representations provided or expressed by the Directors and/or the management of the Company, for which they are solely responsible, are true, accurate and complete in all material respects at the time when they were provided and continue to be so as at the date of the Circular and that they may be relied upon in formulating our opinion.

We have also assumed that all views, opinions and statements of intention or belief provided or expressed by the Directors and the management, advisers and/or representatives of the Company have been arrived at after due and careful enquiries. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view and to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Directors and the management, advisers and/or representatives of the Company nor have we conducted independent investigation into the business, affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular 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 therein or the Circular misleading.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources which are the latest information publicly available to the best of our knowledge, the sole responsibility of TUS Corporate Finance Limited is to ensure that such information has been correctly extracted from the relevant sources.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of renewal of the Existing Agreements and the proposed Annual Caps, we have considered the following principal factors and reasons:

#### 1. Background information of the Group and Tsugami Japan

##### 1.1. The Group

The Group is established in 2003 by Tsugami Japan, a renowned Japanese CNC high precision machine tool manufacturer, for its Chinese undertakings, and has grown into the largest foreign-branded CNC machine tool manufacturer in the Chinese machines tools market through 16 years of rapid business development. The Company manufactures and sells high-end CNC machine tools including precision lathes, precision machining centres and precision grinding machines under the TSUGAMI brand. With its customer orientation, and high speed, high precision and high rigidity as its quality targets, the Company has been widely recognised by the industries including automobile parts and components, IT communications and electronics and industrial automation. The Company primarily sells its CNC high precision machine tools in the PRC and Taiwan through its distributors, whereas, to avoid direct business competition, Tsugami Japan Group also procures the Group's CNC high precision machine tools to sell to its customers based in the Other Markets, including Japan, Korea, Thailand, the United States and certain European countries, with or without further customisations.

##### 1.2. Tsugami Japan

Tsugami Japan, the controlling shareholder of the Company, 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. The Tsugami Japan Group primarily engages in the design, research, development, manufacture and sales of CNC high precision machine tools.

#### 2. Financial information of the Group

Set out below is a summary of the consolidated financial information of the Company as extracted from the annual report of the Company for the year ended 31 March 2019 (the “**2018-2019 Annual Report**”) and the interim report of the Company for the six months ended 30 September 2019 (the “**2019-2020 Interim Report**”).

	For the year ended 31 March		For the six months ended 30 September	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	2,850,883	2,314,215	1,075,854	1,642,510
Gross profit	712,816	472,116	234,775	413,528
Profit attributable to Shareholders for the year/period	367,605	194,090	100,744	219,309

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### *For the year ended 31 March 2019*

Revenue of the Group amounted to approximately RMB2,850.9 million for the year ended 31 March 2019, representing an increase of approximately 23.2% as compared to that of approximately RMB2,314.2 million for the year ended 31 March 2018. According to the 2018-2019 Annual Report, such increase was primarily the result of precision lathes, as the leading products in the market, receiving broader recognition from customers and achieved sales of approximately RMB2,441.5 million for the year ended 31 March 2019, representing an increase of approximately 26.7% as compared with that for the year ended 31 March 2018. In addition, for the year ended 31 March 2019, gross profit increased by approximately 51.0% and profit attributable to Shareholders increased by approximately 89.4% as compared with that for the year ended 31 March 2018, mainly due to the increase in sales volume as a result of the Group's continued expansion of new regions, new customers and new usage.

### *For the six months ended 30 September 2019*

Revenue of the Group amounted to approximately RMB1,075.9 million for the six months ended 30 September 2019, representing a decrease of approximately 34.5% as compared to that of approximately RMB1,642.5 million for the six months ended 30 September 2018. The decrease in total revenue was primarily due to the fact that the Group recorded a significant decrease in its main products, precision lathes, with sales amounted to approximately RMB913.6 million, representing a decrease of approximately 36.0% as compared with that for the six months period ended 30 September 2018. Such decrease was mainly attributable to the influence of global economic turmoil caused by Sino-US trade war and downturn in the PRC automobile industry. Besides, gross profit decreased by approximately 43.2% and the profit attributable to Shareholders decreased by approximately 54.1% as compared with that for the six months ended 30 September 2018, mainly due to the fact that (i) some of the production costs were fixed costs and were less sensitive to the decline in sales volume and production volume of the Group under the influence of overall stagnant economy; and (ii) more intense market competitions which squeezed profit margins of the Group during the economic downturn.

As stated in the 2019-2020 Interim Report, the Group will, as always, adopt sound business strategies and a pragmatic and progressive attitude to resolve difficulties and seize industry opportunities in the challenging market environment. The Group will strive to improve its operational quality and further enhance the operational and financial performance. In the long term, the Group believes that the CNC machines tools market in China will continue to expand. The long-term business growth of the Group will not be influenced by the short-term change of economic situation and will continue the construction of the new production plants located in Bowang District, Anhui Province of the PRC, in preparation for the next round of equipment investment boom.

**3. Reasons for and benefits of the renewal of the Existing Agreements**

***(i) Technology Licence Agreement***

Tsugami Japan, is a long-established renowned CNC high precision machine tool manufacturer with over 80 years of establishment and is recognised worldwide for its CNC high precision machine tools. According to the Letter from the Board, leveraging on the goodwill of the TSUGAMI brand, the Company has been widely recognised by manufacturing enterprises engaged in various industries including, automobile parts and components, IT communications and electronics and industrial automation. As advised by the management of the Company, in order to strengthen the Group's leading position in the industry, the Group will continue to focus on deploying new technologies and applications, improvement of the production system, increase production capacity and efficiency, reduce production costs, improve product quality and enhance the distribution channels and sales network of the Group. The Directors are of the view, and we concur, that the renewal of the Technology Licence Agreement will allow the Group to continuously leverage on the trademarks licensed by, and technical know-how and aftersales service supports provided by Tsugami Japan which enable the Group to leverage on the industry leading technology of Tsugami Japan in order to meet customers' increasing needs for the CNC high precision machine tools and to strengthen the market position of the Group, which we consider to be in line with the overall business strategy of the Group.

***(ii) Master Sales Agreement and Master Purchase Agreement***

To the best knowledge of the Directors, the CNC high precision machine tools manufactured by the Group are variated from those manufactured by Tsugami Japan in terms of functionality and models, which certain specific products could only be produced exclusively by Tsugami Japan. In order to ensure there is a clear business delineation and not to create direct competition between the business of the Group and that of Tsugami Japan, and to ensure that the Group has full autonomy on its business operations, Tsugami Japan has undertaken to the Group in a deed of non-competition that it will not, and will use its best efforts to procure its close associates (other than the Group) not to participate in, or engage in or develop any business which is in direct competition with the Group. As such, the Directors are of the view that there is a clear delineation between the business of the Group and that of Tsugami Japan, taking into account the geographical location of sales and distribution, the business focus and customer groups. For example, when Tsugami Japan Group receives purchase orders for its CNC high precision machine tools in the PRC or Taiwan, instead of Tsugami Japan to confront the sales transactions, the Group will purchase such CNC high precision machine tools from Tsugami Japan Group to serve such purchase orders, and vice versa. In this regard, we concur with the Directors' view that the undertaking of non-competition would ensure the geographical delineation of customer groups and sales markets between the Group and Tsugami Japan Group, and therefore protect the interests of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Furthermore, the Group also procured parts and components (including the CNC systems panels) and production machinery and equipment from Tsugami Japan for manufacturing its CNC high precision machine tools in the PRC. As advised by the management of the Company, owing to the long-term business relationship between Tsugami Japan and the suppliers of such products, the price offered by these third-party suppliers to Tsugami Japan would be more favourable than the price offered to the Group for the same products.

Having considered the above and in addition (i) the renewal of the Technology Licence Agreement, the Master Sales Agreement and the Master Purchase Agreement are a continuation of the Existing Agreements under the same agreement terms and pricing mechanism; (ii) the continuing connected transactions contemplated under the Existing Agreements are considered as the principal business activities of the Group; (iii) the Group has established and maintained long-term business relationship with Tsugami Japan; and (iv) through the renewal of the Existing Agreements, the Group can ensure stable income stream and steady supply of the parts and components, production machinery and equipment and CNC high precision machine tools for the Group. Such that, we are of the view that the proposed continuing connected transactions in relation to the renewal of the Existing Agreements are in ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

#### **4. Principal terms of the Existing Agreements**

##### ***(i) Technology Licence Agreement***

The principal terms of the Technology Licence Agreement are summarised below:

Date: 4 September 2017

Parties: (a) the Company  
(b) Tsugami Japan

Duration: The Technology Licence Agreement shall, upon renewal, continue to be effective up to and including 31 March 2023, which may be automatically renewed for successive periods of three years thereafter unless notified by the Company to Tsugami Japan by written notice of not less than 30 days before the expiry of the renewal term or any subsequent successive periods, or otherwise terminated earlier in accordance with the Technology Licence Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Continuing transactions: Tsugami Japan agreed to irrevocably grant to the Company:

- (a) an exclusive licence to use the Technology necessary for the manufacture of the CNC high precision machine tools of the Company and to provide aftersales services in connection with these products; and
- (b) 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).

### *Pricing guideline*

Depending on the models of the Company's 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).

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.

As part of our due diligence works, we have shortlisted five continuing connected transactions in the past 12 months, on non-exhaustive basis, in relation to the grant/use of trademark, patent and/or technology licence entered into by the relevant listed issuers on the Stock Exchange with their corresponding connected persons. We compared and noted that royalty rate of 1.0% or 5.0% payable to Tsugami Japan by the Group is within range of the aforementioned continuing connected transactions from 0.5% to 5.0%. Further as confirmed with the management of the Company, the daily aftersales service fees of approximately JPY46,000 to be charged by Tsugami Japan is in general favourable to the Group as compared to the standard daily rate charged by Tsugami Japan for its staff in provision of the similar services in Japan.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### *(ii) Master Sales Agreement*

The principal terms of the Master Sales Agreement are summarised below:

Date:	4 September 2017
Parties:	(a) the Company  (b) Tsugami Japan
Duration:	The Master Sales Agreement shall, upon renewal, continue to be effective up to and including 31 March 2023, which may be automatically renewed for successive periods of three years thereafter unless terminated, amongst other matters, by either party with not less than 30 business days' prior written notice, subject to compliance of the Listing Rules.
Continuing transactions:	The Group agreed to sell its CNC high precision machine tools to the Tsugami Japan Group.

### *Pricing guideline*

The transactions contemplated under the Master Sales Agreement will be conducted in the ordinary and usual course of business of the 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 the Group and the Shareholders as a whole. The selling price 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. Before entering into the separate sales contract with Tsugami Japan, among other things, the Company will analyse and compare the prevailing market prices for similar products in the market with the selling prices offered to Tsugami Japan Group and taking into account factors including the level of customisations, time and effort required for making various specifications and/or customisations to the CNC high precision machine tools, purchase quantity, the delivery schedule, whether sales and marketing, aftersales services and technical support services are needed, etc., and provide a quotation which is comparable to at least two transactions with independent third party customers of similar products for the same period. We are of the view that such arrangements are justifiable for the Company to ensure the selling price for Tsugami Japan Group is fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### *(iii) Master Purchase Agreement*

The principal terms of the Master Purchase Agreement are summarised below:

Date: 4 September 2017

Parties: (a) the Company  
(b) Tsugami Japan

Duration: The Master Purchase Agreement shall, upon renewal, continue to be effective up to and including 31 March 2023, which may be automatically renewed for successive periods of three years thereafter unless terminated, among other matters, by either party with not less than 30 business days' prior written notice, subject to the compliance of the Listing Rules.

Continuing transactions: The Group 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.

### *Pricing guideline*

The transactions contemplated under the Master Purchase Agreement will be conducted in the ordinary and usual course of business of the 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 the Group and its Shareholders as a whole. In respect of purchase of parts and components which are manufactured by independent third party suppliers but procured from the Tsugami Japan Group, before making the purchase orders, the Company will obtain at least two quotations from the independent third party suppliers and/or review two comparable transactions with independent third party suppliers for the same period. In respect of the parts and components, production machinery and equipment and CNC high precision machine tools which are manufactured and uniquely designed for the Group's needs by the Tsugami Japan Group, the Company will compare the time and costs incurred by the Group if the Group directly develops and manufactures such products with the purchase prices offered by the Tsugami Japan Group. The Group will only procure from Tsugami Japan Group when the purchase price offered to the Group is at a relatively competitive level. Having considered the above, we are of the view that such arrangements are justifiable for the Company to ensure the purchase price for Tsugami Japan Group is fair and reasonable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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In addition, we were given to understand by the management of the Company, that the Group has adopted internal control measures when conducting the continuing connected transactions contemplated under the Master Sales Agreement and the Master Purchase Agreement. The Company has assigned specific responsibilities to the senior management, finance department and procurement department of the Company in performing regular checks on the continuing connected transactions, monitoring the amounts of transactions and conducting assessment and evaluation on the fairness of the transaction terms and pricing terms to ensure the continuing connected transactions with Tsugami Japan Group are in accordance with respective Master Sales Agreement and Master Purchase Agreement.

Furthermore, we noted from the annual report of the Company for each of the two years ended 31 March 2018 and 2019, that the independent non-executive Directors of the Company had reviewed the historical continuing connected transactions in relation to the Existing Agreements and confirmed such continuing connected transactions were (i) entered into in the ordinary and usual course of business of the Company; (ii) conducted on normal commercial terms; and (iii) conducted pursuant to the Existing Agreements governing the relevant transactions on terms which are fair and reasonable and in the interests of the Company and its shareholders as a whole. In determining the prices and terms of the said continuing connected transactions conducted during respective financial year, the Company has complied with the pricing guidelines and adopted internal control measures. We also noted that auditor of the Company had confirmed to the Board that the historical continuing connected transactions were, in all material respects, in accordance with the Existing Agreements.

As confirmed by the Company, the Company will continue to comply with the relevant annual review requirements under the Listing Rules on an on-going basis.

Given the above, we concur with the Directors' view that the Group has implemented effective internal control measures to ensure that the continuing connected transactions with Tsugami Japan Group will be conducted on normal commercial terms and in accordance with the Master Sales Agreement and the Master Purchase Agreement.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

### 5. Historical figures and the proposed Annual Caps

The historical transaction amounts and respective historical annual caps for transactions under the Existing Agreements for the two years ended 31 March 2019 and for the six months ended 30 September 2019 are set out as below:

	For the year ended 31 March		For the six months ended 30 September
	2018	2019	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
<b>Technology Licence Agreement:</b>			
Historical transaction amounts	107.5	128.5	50.0
Historical annual caps	112.0	161.0	212.0
Utilisation rates (%)	96.0%	79.8%	47.2% <sup>(1)</sup>
<b>Master Sales Agreement:</b>			
Historical transaction amounts	634.5	822.7	248.1
Historical annual caps	760.0	957.0	1,153.0
Utilisation rates (%)	83.5%	86.0%	43.0% <sup>(1)</sup>
<b>Master Purchase Agreement:</b>			
Historical transaction amounts	295.0	236.5	79.8
Historical annual caps	350.0	503.0	664.0
Utilisation rates (%)	84.3%	47.0%	24.0% <sup>(1)</sup>

*Note:*

1. Calculated based on annualised historical transaction amounts for the six months ended 30 September 2019

The proposed Annual Caps for the transactions contemplated under the renewed Technology Licence Agreement, Master Sales Agreement and Master Purchase Agreement, respectively, for the three years ending 31 March 2023 are set out as below:

	For the year ending 31 March		
	2021	2022	2023
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
<b>Proposed Annual Caps:</b>			
Technology Licence Agreement	129.0	161.0	193.0
Master Sales Agreement	840.0	1,050.0	1,260.0
Master Purchase Agreement	358.0	448.0	538.0

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As illustrated in the tables above, we noted that the historical annual caps were very close to full utilisation for the two years ended 31 March 2018 and 2019, which implied that the Company had taken a prudent approach in estimating the transaction amounts in the past. In view of the comparatively lower utilisation rates for the six months ended 30 September 2019, we were given to understand that it was mainly attributable to the decrease in demand for the Group's product as a result of the trade frictions between China and the United States as well as the macro-economic downturn in 2019. As disclosed in the 2019-2020 Interim Report, the Sino-US trade frictions had been constantly escalating since its outbreak in 2018, with the situation getting more severe leading to an extremely obvious effect on both the Chinese economy and the global economy. Based on our market researches on official statistics published by the PRC government, China's economy in 2019 recorded its slowest rate of growth in more than 27 years, as the effect of the trade frictions compounded cooling effects in domestic demand that led to the weakened demand for the Group's products. As such, the Company decided to downward adjust the proposed Annual Caps for the year ending 31 March 2021, represents a decrease of approximately 39.2%, 27.1% and 46.1% from the historical annual caps for the Technology Licence Agreement, the Master Sales Agreement and the Master Purchase Agreement for the year ending 31 March 2020, respectively.

According to the Letter from the Board, the proposed Technology Annual Caps were determined with reference to (i) the historical Trademarks and Technology licence fees paid to Tsugami Japan; (ii) the royalty rate of 1.0% or 5.0% and the aftersales services fee payable to Tsugami Japan pursuant to the Technology Licence Agreement; and (iii) the expected growth in sales volume and market price for the Group's CNC high precision machine tools for the three years ending 31 March 2023. The proposed Sales Annual Caps were determined with reference to (i) the historical sales amounts for the CNC high precision machine tools of the Group to the Tsugami Japan Group; and (ii) the expected growth in sales volume and market price for the Group's CNC high precision machine tools selling to Tsugami Japan Group for the three years ending 31 March 2023. The proposed Purchase Annual Caps were determined with reference to (i) the historical purchase costs paid to Tsugami Japan; (ii) the projected growth for the sales of the Group's CNC high precision machine tools for the three years ending 31 March 2023; (iii) the expected demand for 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 to cope with the Group's projected growth of sales; and (iv) the estimated increase in production costs of parts and components, production machinery and equipment and CNC high precision machine tools.

Furthermore, from analysing the historical transaction amounts, we were given to understand that the Trademarks and Technology licence fees and procurement costs payable to Tsugami Japan Group were, to certain extent, driven by the overall sales performance of the Group. Hence, in determining the proposed Technology Annual Caps and the proposed Purchase Annual Caps for the three years ending 31 March 2023, the Company made reference to the proportion of respective historical transaction amounts over the total revenue of the Group for the two years ended 31 March 2018 and 2019.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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In order to assess the fairness and reasonableness of the proposed Annual Caps, we have discussed with the management of the Company on the bases and assumptions underlying the determination of the proposed Annual Caps as below:

- (i) As stated in the Letter from the Board, the decrease in financial performance of the Group for the six months ended 30 September 2019 was mainly attributable to the decrease in demand for the Group's products under the influence of various macroeconomic uncertainties, including the trade frictions between China and the United States and downturn in the PRC automobile industry. In addition, the recent outbreaks of the novel coronavirus in the PRC will further strain the total revenue of the Group for the year ending 31 March 2020. In this regard, we have discussed with the management of the Company and were given to understand, that the Directors believe that (i) the trade frictions between China and the United States are less intense after the phase one trade agreements signed by the two countries in January 2020; (ii) the downturn of the automobile industry has cyclical changes and the correction of the financial performance was within the expectations of the Company; and (iii) the recent coronavirus outbreak is not expected to have a prolonged impact on the operations of the Group and the Group has endeavoured to maintain business operation while implementing various measures to ensure the health and safety of its employees.

Having considered the aforementioned, we are of the view that the unfavorable financial performance of the Group for the recent year which led to the low utilisation rate of the annual caps for the six months ended 30 September 2019 cannot truly reflect the Group's upward potential in its business and sales performance for the next three years. Similar to many other enterprises in the PRC, the macro-economic downturn in 2019 created pressure in the market demand for the Group's CNC high precision machine tools, however such impacts are expected to be short-lived. We concur with the Directors' view that the revenue of the Group for the year ending 31 March 2021 may resume at a similar level as for the year ended 31 March 2019 provided that the PRC government can move quickly to counter the economic fallout from the coronavirus outbreak and the measures taken to contain it. Likewise, the proposed Technology Annual Cap, Sales Annual Cap and Purchase Annual Cap for the year ending 31 March 2021 will also be adjusted down by approximately 39.2%, 27.1% and 46.1%, respectively, compared to the relevant annual caps for the year ending 31 March 2020.

- (ii) We noted that the target sales for the three years ending 2023 are generally in line with those being adopted in computing the proposed Annual Caps and were given to understand that, the Company estimated the target sales of the Group forms a basis reference in determining the proposed Annual Caps for the next three years. Such that, we have obtained and reviewed the computation of the target sales of the Group for the three years ending 31 March 2023, which contains the historical and estimated sales for different products of the Group. As mentioned above, we noted that the target sales for the year ending 31 March 2021 estimated by the Company

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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is at a similar level to that for the year ended 31 March 2019 with year-on-year growth of approximately 25% and 20% on target sales of the Group by the two years ending 31 March 2022 and 2023, respectively. Disregarding the deterioration in financial performance for the six months ended 30 September 2019, we computed the historical actual revenue growth of the Group for the three years ended 31 March 2019, representing a CAGR of approximately 32.0%. Therefore, we are of the view that the target sales with year-on-year growth of approximately 25% and 20% for the two years ending 31 March 2022 and 2023, respectively, are justifiable.

- (iii) In July 2015, the “Made in China 2025” strategy, a roadmap released by the State Council in 2015 to guide the country’s advanced industrial manufacturing, has pictured a steady progress in industrial capability, smart manufacturing, innovation, as well as product quality and branding. Sectors that boost manufacturing innovation, including the Internet of Things, smart appliances and high-end consumer electronics, are the major priority for funding, according to the Ministry of Industry and Information Technology (MIIT). It is specifically stated that in high-end digital control machine tools sector, the PRC government will focus and provide support on (i) developing precision machine tools which are capable of high speed, high efficiency and functional flexibility, and developing manufacturing equipment and integrated manufacturing systems; (ii) accelerating research of frontier technologies and equipment like high-end digital control machine tools and additive manufacturing; (iii) reliability, stability and precision of major parts like high-end numerical systems, servomotors, bearings and grating to realize industrialization; and (iv) improving user process certification;
- (iv) According to the Letter from the Board, the expansion and renovation of production plant #4 of the Group in Pinghu, Zhejiang province of the PRC, has completed and put into use in March 2019, which has contributed by approximately 30% in addition to the overall production capacity of the Group. In order to cater the future sales and demand growth, the Group has commenced the construction of the first two phases of a new production plants in Bowang District, Anhui province of the PRC, and is expected to be completed by December 2021. Upon completion of the new Anhui plants, the overall production capacity of the Group could further increase by approximately 40%. The Directors are of the view and we concur that, the Group will have sufficient production capability to fulfil the increasing demand for the Group’s CNC high precision machine tools by 2023; and
- (v) According to the 2018-2019 Annual Report, product capacity of the Chinese manufacturing industry has transformed from quantitative to qualitative. From being labor-intensive to technology-intensive, transformation and updating have gradually become a mainstream across the industry, and the requirements for automation, numerical control and precision of manufacturing equipment are getting higher. The Directors are of the view and we concur that, there is potential for the demand for high-end manufacturing equipment to grow.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Having considered all of the above, in particular, (i) the reasons for and benefits of renewal of the Existing Agreements; (ii) the anticipated industry growth and demand of the Group's product; and (iii) the existing scale of operation and development plans of the Group, we concur with the Directors' view that the proposed Annual Caps and the major factors considered as the bases of determining the proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

However, the Shareholders should note that as the proposed Annual Caps are determined based on various factors relating to future events and assumptions which may or may not remain valid for the entire period up to 31 March 2023, they do not represent any forecasts or estimations of the Group's financial performance. Consequently, we express no opinion as to how closely the actual future transaction amounts of the continuing connected transactions will correspond with the relevant proposed Annual Caps.

### RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the opinion that the continuing connected transactions to be conducted in relation to the renewal of the Existing Agreements are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Technology Licence Agreement, the Master Sales Agreement and the Master Purchase Agreement (including the proposed Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the renewal of the Technology Licence Agreement, the Master Sales Agreement and the Master Purchase Agreement and the transactions thereunder (including the proposed Annual Caps).

Yours faithfully,  
For and on behalf of  
**TUS Corporate Finance Limited**  
**Michael Ngai**  
*Managing Director*

*Mr. Michael Ngai is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of TUS Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 15 years of experience in the finance and investment banking industry.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.

## 2. DISCLOSURE OF INTERESTS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register maintained by the Company referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”), to be notified to the Company and the Stock Exchange, were as follows:

### Long position in the shares and the underlying shares of the Company

Name	Position	Long/short positions	Capacity	Number of shares held in the Company	Note	Percentage of shareholding in the Company
Tang Donglei	Chief executive officer and executive Director	Long position	Beneficial owner	150,000	1	0.03%

*Note:*

- This represents the shares beneficially held by Dr. Tang Donglei in his personal capacity.



**Long position in the shares and the underlying shares of the associated corporation of the Company (within the meaning of Part XV of the SFO) – Tsugami Japan**

Name	Position	Long/short positions	Capacity	Number of shares held in the associated corporation	Note	Percentage of shareholding in the associated corporation
Takao Nishijima	Chairman and Non-executive Director	Long position	Beneficial owner	10,000	2	0.02%

*Note:*

2. This represents the shares beneficially held by Mr. Takao Nishijima in his personal capacity.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

### 3. SUBSTANTIAL SHAREHOLDER

**Substantial shareholder's interests or short positions in the shares and underlying shares of the Company**

As at the Latest Practicable Date, so far as any of the Directors or chief executive of the Company are aware, the following entity had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which will have to be notified to the Company and the Stock Exchange pursuant to provisions of Divisions 2 and 3 of Part XV of the SFO or which ought to be recorded in the register of the Company required to be kept under section 336 of the SFO:

Name of substantial shareholder	Long/short positions	Capacity	Number of shares	Notes	Percentage of issued shares
Tsugami Japan	Long position	Beneficial owner	270,000,000	1	70.8%

*Notes:*

1. The 270,000,000 shares were beneficially owned by Tsugami Japan.
2. The percentage of issued shares is calculated on the basis of 381,370,000 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.



**4. INTEREST OF DIRECTORS IN COMPETING BUSINESS**

As at the Latest Practicable Date, the Directors are not aware that any of them or any of their associates had interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would fall to be discloseable under the Listing Rules.

**5. DIRECTORS' INTEREST IN ASSETS AND CONTRACTS OF THE GROUP**

As at the Latest Practicable Date, none of the Directors had (i) any direct or indirect interests in any assets which have been since 31 March 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) any material interest in any contract or arrangement at the Latest Practicable Date which is significant in relation to the business of the Group.

**6. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

**7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, save and except for an expected decrease of approximately 50% in the profit attributable to the owners of the Group for the nine months ended 31 December 2019 as compared to that for the nine months ended 31 December 2018, which has been disclosed in the profit warning announcement of the Company dated 24 January 2020, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 March 2019, the date to which the latest published audited consolidated financial statements of the Group were made up.

**8. EXPERT AND CONSENT**

The following is the qualification of the expert who has given opinion or advice for inclusion in this circular:

**Independent Financial Advisor**

TUS Corporate Finance Limited

**Qualification**

a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

TUS Corporate Finance Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter of advice or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, TUS Corporate Finance Limited (i) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and (ii) had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 March 2019 (the date to which the latest published audited consolidated financial statements of the Company were made up) or proposed to be acquired, disposed of or leased to.

## **9. GENERAL**

- (a) The Company's registered office is at PO Box 309, Ugland House, Grand Cayman, KY 1-1104, Cayman Islands.
- (b) The company secretary of the Company is Ms. Wong Wai Yee Ella. Ms. Wong is a Chartered Secretary, a Chartered Governance Professional and a fellow of both the The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly 'The Institute of Chartered Secretaries and Administrators').
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English texts of this circular and the accompanying proxy form shall prevail over the Chinese texts.

## **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the Technology Licence Agreement;
- (b) the Master Sales Agreement;
- (c) the Master Purchaser Agreement;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 19 to 20 of this circular;
- (e) the letter from TUS Corporate Finance Limited, the text of which is set out on pages 21 to 36 of this circular; and
- (f) the letter of consent from TUS Corporate Finance Limited referred to in the paragraph headed "EXPERT AND CONSENT" in this appendix.

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## NOTICE OF EGM

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### 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)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Precision Tsugami (China) Corporation Limited (the “**Company**”) will be held at Admiralty Conference Centre, 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Monday, 30 March 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, with or without amendment, passing the following resolutions:

#### ORDINARY RESOLUTIONS

**“THAT:**

- (i) the proposed renewal of the technology licence agreement (the “**Technology Licence Agreement**”) dated 4 September 2017 entered into between the Company and Tsugami Corporation (株式會社ツガミ) (“**Tsugami Japan**”) (a copy of which will be produced to the EGM marked as “A” and signed by the chairman of the EGM for the purpose of identification) for a renewal term of three years, i.e. up to and including 31 March 2023 be and is hereby approved, confirmed and ratified;
  - (ii) the proposed renewal of the master sales agreement (the “**Master Sales Agreement**”) dated 4 September 2017 entered into between the Company and Tsugami Corporation (株式會社ツガミ) (“**Tsugami Japan**”) (a copy of which will be produced to the EGM marked as “B” and signed by the chairman of the EGM for the purpose of identification) for a renewal term of three years, i.e. up to and including 31 March 2023 be and is hereby approved, confirmed and ratified;
  - (iii) the proposed renewal of the master purchase agreement (the “**Master Purchase Agreement**”) dated 4 September 2017 entered into between the Company and Tsugami Corporation (株式會社ツガミ) (“**Tsugami Japan**”) (a copy of which will be produced to the EGM marked as “C” and signed by the chairman of the EGM for the purpose of identification) for a renewal term of three years, i.e. up to and including 31 March 2023 be and is hereby approved, confirmed and ratified;
- (the Technology Licence Agreement, the Master Sales Agreement, and the Master Purchase Agreement, collectively, the “**Existing Agreements**”);
- (iv) the proposed annual cap amounts in respect of the transactions contemplated under the Technology Licence Agreement for the three years ending 31 March 2021, 2022 and 2023 (the “**Technology Annual Caps**”) as set out in the Company’s circular dated 11 March 2020 (the “**Circular**”) be and are hereby approved, confirmed and ratified;

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## NOTICE OF EGM

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(v) the proposed annual cap amounts in respect of the transactions contemplated under the Master Sales Agreement for the three years ending 31 March 2021, 2022 and 2023 (the “**Sales Annual Caps**”) as set out in the Circular be and are hereby approved, confirmed and ratified;

(vi) the proposed annual cap amounts in respect of the transactions contemplated under the Master Purchase Agreement for the three years ending 31 March 2021, 2022 and 2023 (the “**Purchase Annual Caps**”) as set out in the Circular be and are hereby approved, confirmed and ratified;

(the Technology Annual Caps, the Sales Annual Caps, and the Purchase Annual Caps, collectively, the “**Annual Caps**”);

(vii) any one director of the Company be and is hereby authorised to do all acts and things, take such necessary actions and to approve, execute and deliver all deeds, agreements and documents in relation to the renewal of the Existing Agreements and the Annual Caps on behalf of the Company which he/she (or his/her properly appointed attorney) may consider necessary.”

By order of the Board  
**Precision Tsugami (China) Corporation Limited**  
**Dr. Tang Donglei**  
*Chief Executive Officer and Executive Director*

Hong Kong, 11 March 2020

*Notes:*

1. The register of members of the Company will be closed from Wednesday, 25 March 2020 to Monday, 30 March 2020 (both days inclusive) during which period no transfer of Share(s) will be effected. In order to determine the entitlement to attend and vote at the EGM, all transfers of Share(s), accompanied by the relevant share certificate(s) with the properly completed transfer form(s) either overleaf or separately, must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 24 March 2020. Shareholders whose names appear on the register of the Shareholders of the Company on Wednesday, 25 March 2020 will be entitled to attend and vote at the EGM.
2. A form of proxy for use at the EGM is enclosed in the circular to the shareholders of the Company dated 11 March 2020.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
4. A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more than one proxies to attend and vote in his or her stead. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.
5. In order to be valid, the form of proxy must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
6. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting convened by the above notice or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
7. As of the date of this notice, the executive directors of the Company are Dr. Tang Donglei and Mr. Li Zequan; the non-executive directors of the Company are Mr. Takao Nishijima, Ms. Mami Matsushita and Mr. Manabu Tanaka; and the independent non-executive directors of the Company are Dr. Huang Ping, Dr. Eiichi Koda and Mr. Tam Kin Bor.