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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 LICENSE AGREEMENT, THE MASTER SALES AGREEMENT, THE MASTER PURCHASE AGREEMENT AND THE PROPOSED ANNUAL CAPS

Independent Financial Adviser



**TUS Corporate
Finance Limited**

TUS Corporate Finance Limited

References are made to the prospectus of the Company dated 12 September 2017, the announcement of the Company dated 22 January 2018 and the circular of the Company dated 12 February 2018, 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.

As at the date of this announcement, 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.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in relation to the renewal of the Existing Agreements and the Annual Caps. The Company has appointed the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in this regard.

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 circular containing, 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, is expected to be dispatched to the Shareholders on or before 11 March 2020.

INTRODUCTION

References are made to the prospectus of the Company dated 12 September 2017, the announcement of the Company dated 22 January 2018 and the circular of the Company dated 12 February 2018, 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.

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 License 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 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 renewal term or any subsequent successive periods, or otherwise terminated earlier in accordance with the Technology Licence Agreement.
- 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
Duration	:	The Master Sales Agreement shall, upon renewal, continue to be effective up to and including 31 March 2023, 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.
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 Company 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;
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 will 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 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 Company 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;

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 and 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; 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 license fees and after sales service fees paid to Tsugami Japan amounted to, in aggregate, approximately RMB107.5 million, RMB128.5 million and RMB50.0 million, respectively.

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

	For the year ending 31 March 2021 <i>RMB (million)</i>	For the year ending 31 March 2022 <i>RMB (million)</i>	For the year ending 31 March 2023 <i>RMB (million)</i>
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.

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

	For the year ending 31 March 2021 <i>RMB (million)</i>	For the year ending 31 March 2022 <i>RMB (million)</i>	For the year ending 31 March 2023 <i>RMB (million)</i>
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 operation 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.

(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's 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:

	For the year ending 31 March 2021 RMB (million)	For the year ending 31 March 2022 RMB (million)	For the year ending 31 March 2023 RMB (million)
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 the 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.

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 (excluding the independent non-executive Directors who will provide their views after considering the opinion of the Independent Financial Adviser) 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.

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 date of this announcement, 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.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in relation to the renewal of the Existing Agreements and the Annual Caps. The Company has appointed the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in this regard.

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 circular containing, 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, is expected to be dispatched to the Shareholders on or before 11 March 2020.

DEFINITIONS

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

“Annual Caps”	collectively, the Technology Annual Caps, the Sales Annual Caps, and the Purchase Annual Caps;
“Board”	the board of Directors;
“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
“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, 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;
“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 announcement;
“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 announcement;
“Other Markets”	markets outside the PRC and Taiwan;
“PRC”	People’s Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context requires otherwise, references to the “PRC” in this announcement do not apply to Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“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;
“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 announcement;
“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 TSUGAMI ;
“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 listed on the Tokyo Stock Exchange;
“Tsugami Japan Group”	Tsugami Japan and its subsidiaries (other than the Group).

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

Hong Kong, 19 February 2020

As at the date of this announcement, the executive Directors of the Company are Dr. Tang Donglei and Dr. Li Zequn; the non-executive Directors are Mr. Takao Nishijima, Ms. Mami Matsushita, Mr. Manabu Tanaka; and the independent non-executive Directors are Dr. Eiichi Koda, Dr. Huang Ping and Mr. Tam Kin Bor.