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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 AND THE MASTER  
PURCHASE AGREEMENT**

References are made to the prospectus of the Company dated 12 September 2017, the announcements of the Company dated 22 January 2018, 19 February 2020 and 8 June 2021, and the circulars of the Company dated 12 February 2018, 11 March 2020 and 30 June 2021 in relation to, among other things, the Existing Agreements.

On 4 September 2017, the Company and Tsugami Japan entered into the Existing Agreements for an initial term of three years commencing from 25 September 2017 to 31 March 2020, which was subsequently renewed for a successive period of three years commencing from 1 April 2020. As such, the Existing Agreements will expire on 31 March 2023, and 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 term on 31 March 2023 for a further term of three years, i.e. up to and including 31 March 2026.

As at the date of this announcement, Tsugami Japan is interested in approximately 70.9% of the issued share capital of the Company and is the controlling shareholder of the Company and therefore, members of the Tsugami Japan Group are connected persons of the Company. Accordingly, 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, each of the Technology Annual Caps, the Sales Annual Caps and the Purchase Annual Caps is subject to reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, consisting of all independent non-executive Directors, being Dr. Eiichi Koda, Dr. Huang Ping and Mr. Tam Kin Bor, each of whom has no interests in the transactions, has been established by the Board to consider and 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 2024, 31 March 2025 and 31 March 2026 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 2024, 31 March 2025 and 31 March 2026; (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 the 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 18 July 2022.

## **INTRODUCTION**

References are made to the prospectus of the Company dated 12 September 2017, the announcements of the Company dated 22 January 2018, 19 February 2020 and 8 June 2021, and the circulars of the Company dated 12 February 2018, 11 March 2020 and 30 June 2021 in relation to, among other things, the Existing Agreements.

On 4 September 2017, the Company and Tsugami Japan entered into the Existing Agreements for an initial term of three years commencing from 25 September 2017 to 31 March 2020, which was subsequently renewed for a successive period of three years commencing from 1 April 2020. As such, the Existing Agreements will expire on 31 March 2023, and 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 term on 31 March 2023 for a further term of three years, i.e. up to and including 31 March 2026.

## 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 was subsequently renewed for a successive period of three years commencing from 1 April 2020. As such, the Technology Licence Agreement will expire on 31 March 2023.

The Company and Tsugami Japan agreed to renew the Technology Licence Agreement upon the expiry of its term on 31 March 2023 for a further term of three years, i.e. up to and including 31 March 2026. 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 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 2026, 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 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.

### **(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 was subsequently renewed for a successive period of three years commencing from 1 April 2020. As such, the Master Sales Agreement will expire on 31 March 2023.

The Company and Tsugami Japan agreed to renew the Master Sales Agreement upon the expiry of its term on 31 March 2023 for a further term of three years, i.e. up to and including 31 March 2026. 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 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 2026, 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 Company 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 was subsequently renewed for a successive period of three years commencing from 1 April 2020. As such, the Master Purchase Agreement will expire on 31 March 2023.

The Company and Tsugami Japan agreed to renew the Master Purchase Agreement upon the expiry of its term on 31 March 2023 for a further term of three years, i.e. up to and including 31 March 2026. 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 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 2026, 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 Company 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 Company 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 Company'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 2021 and 2022 and the two months ended 31 May 2022, the Company's Trademarks and Technology licence fees and after sales service fees paid to Tsugami Japan amounted to, in aggregate, approximately RMB144.3 million, RMB203.4 million and RMB38.5 million, respectively.

The Technology Annual Caps for the three years ending 31 March 2024, 31 March 2025 and 31 March 2026 are set out below:

	<b>For the year ending 31 March 2024 <i>RMB(million)</i></b>	<b>For the year ending 31 March 2025 <i>RMB(million)</i></b>	<b>For the year ending 31 March 2026 <i>RMB(million)</i></b>
Technology Annual Caps	332.0	398.0	438.0

#### ***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 2021 and 2022 and the two months ended 31 May 2022; (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 2024, 2025 and 2026; and (iv) the estimated increase in market price of or demand for the CNC high precision machine tools of the Company for the three years ending 31 March 2024, 2025 and 2026.

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 2026 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 2021 and 2022 and the two months ended 31 May 2022, the Group’s total sales of its CNC high precision machine tools to the Tsugami Japan Group amounted to approximately RMB384.6 million, RMB739.7 million and RMB151.7 million, respectively.

The Sales Annual Caps for the three years ending 31 March 2024, 31 March 2025 and 31 March 2026 are set out below:

	<b>For the year ending 31 March 2024 <i>RMB(million)</i></b>	<b>For the year ending 31 March 2025 <i>RMB(million)</i></b>	<b>For the year ending 31 March 2026 <i>RMB(million)</i></b>
Sales Annual Caps	1,980.0	2,376.0	2,613.0

***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 2021 and 2022 and the two months ended 31 May 2022; (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 2024, 31 March 2025 and 31 March 2026 following the recovery of the overseas economies; 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 2024, 31 March 2025 and 31 March 2026.

As disclosed in the annual report of the Company for the year ended 31 March 2021, the revenue of the Group had increased by approximately 60.4% as compared to that of the previous year. Further, as disclosed in the annual results for the year ended 31 March 2022 announcement of the Company, the Group recorded an increase of approximately 41.8% in the Group's revenue as compared to that for the year ended 31 March 2021 and the Group's sales for the year ended 31 March 2022 had continued the growth momentum of the previous financial year. In addition, as disclosed in the annual results announcement of Tsugami Japan for the year ended 31 March 2022, the revenue of the Tsugami Japan Group recorded an increase of approximately 51.1% for the year ended 31 March 2022 as compared to that of the previous financial year. As evidenced by the above results, the Board believes that there is a steady recovery of the domestic and overseas economies. Therefore, the Company expects that the sales of the Group's CNC high precision machine tools to the Tsugami Japan Group will increase accordingly.

Furthermore, the Company also anticipates that there will be an upward adjustment of the selling price of its CNC high precision machine tools in view of the 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 2021 and 2022 and the two months ended 31 May 2022, 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 RMB152.4 million, RMB339.1 million and RMB39.0 million, respectively.

The Purchase Annual Caps for the three years ending 31 March 2024, 31 March 2025 and 31 March 2026 are set out below:

	<b>For the year ending 31 March 2024 <i>RMB(million)</i></b>	<b>For the year ending 31 March 2025 <i>RMB(million)</i></b>	<b>For the year ending 31 March 2026 <i>RMB(million)</i></b>
Purchase Annual Caps	898.0	1,077.0	1,185.0

### ***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 2021 and 2022 and the two months ended 31 May 2022; (ii) the projected growth for the sales of the CNC high precision machine tools of the Group for the three years ending 31 March 2024, 2025 and 2026; (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 increase in sales volume of the CNC high precision machine tools for the three years ending 31 March 2026. Other than the anticipated increase in demand for the CNC high precision machine tools in the Other Markets, in projecting the demand for CNC high precision machine tools in the PRC market, the Group had taken into account (i) the increasing trend of energy saving and emission control in the PRC automobile market; (ii) the favourable PRC government policies in support of high precision machine tools and high-end digital machine tools; and (iii) the PRC's overall economy. The Company considered that as the PRC manufacturers' operations are resuming gradually, the PRC manufacturing industry is restoring to the pre-pandemic level.

Further, having considered that the newly established production plant in Pinghu is expected to commence operation in 2024, thereby significantly increase the production capacity of the Group, 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 technical know-how and leading technology in the CNC high precision machine tool industry and developed aftersales services, in order to meet the increasing needs of the Group's customers and strengthen the market position of the Group, which is in line with the overall business strategy of the Group; (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 60 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 interested in approximately 70.9% of the issued share capital of the Company and is the controlling shareholder of the Company and therefore, members of the Tsugami Japan Group are connected persons of the Company. Accordingly, 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. Motoi Yamada 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. Motoi Yamada 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.

The Independent Board Committee, consisting of all independent non-executive Directors, being Dr. Eiichi Koda, Dr. Huang Ping and Mr. Tam Kin Bor, each of whom has no interests in the transactions, 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 2024, 31 March 2025 and 31 March 2026 by way of ordinary resolutions.

A circular containing, among other things, (i) the 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 2024, 31 March 2025 and 31 March 2026; (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 18 July 2022.

## 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 2024, 31 March 2025 and 31 March 2026 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”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, which is the independent financial adviser appointed to advise 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, which was subsequently renewed upon its 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, the principal terms of which are summarised in this announcement;
“Master Sales Agreement”	the master sales agreement dated 4 September 2017 entered into between the Company and Tsugami Japan, which was subsequently renewed upon its 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, the principal terms of which are summarised in this announcement;
“Other Markets”	markets outside the PRC and Taiwan;
“PRC”	the 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 2024, 2025 and 2026;
“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 2024, 2025 and 2026;
“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 2024, 2025 and 2026;
“Technology Licence Agreement”	the technology licence agreement dated 4 September 2017 entered into between the Company and Tsugami Japan, which was subsequently renewed upon its 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, the principal terms of which are summarised 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 <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 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**  
*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 27 June 2022

*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 of the Company are Mr. Takao Nishijima, Ms. Mami Matsushita and Mr. Motoi Yamada; and the independent non-executive directors of the Company are Dr. Eiichi Koda, Dr. Huang Ping and Mr. Tam Kin Bor.*