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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022**

The board (the “**Board**”) of directors (the “**Directors**”) of Precision Tsugami (China) Corporation Limited (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2022 (the “**Period under Review**”) together with the unaudited comparative figures for the corresponding period in 2021. Such results have been reviewed by the external auditor Ernst & Young and the audit committee of the Company.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended	
		30 September	
		2022	2021
		RMB'000	RMB'000
<i>Notes</i>		(Unaudited)	(Unaudited)
REVENUE	4	2,200,360	2,370,339
Cost of sales		<u>(1,666,262)</u>	<u>(1,711,513)</u>
GROSS PROFIT		534,098	658,826
Other income and gains		42,815	139,706
Selling and distribution expenses		(75,672)	(79,407)
Administrative expenses		(54,660)	(46,179)
Impairment gains/(losses) on financial assets		571	(1,591)
Other expenses		(4,306)	(110,456)
Finance costs		(70)	(1,063)
PROFIT BEFORE TAX		442,776	559,836
Income tax expense	5	<u>(142,083)</u>	<u>(182,179)</u>
PROFIT FOR THE PERIOD		<u>300,693</u>	<u>377,657</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>300,693</u>	<u>377,657</u>
Attributable to:			
Owners of the parent		<u>300,693</u>	<u>377,657</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
– For profit for the period	7	<u>0.79</u>	<u>0.99</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September	31 March
		2022	2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		536,853	549,841
Right-of-use assets		73,465	73,303
Intangible assets		5,158	5,533
Investments in associates		2,800	–
Deferred tax assets		23,396	16,306
		<hr/>	<hr/>
Total non-current assets		641,672	644,983
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		1,068,963	1,033,543
Trade and notes receivables	8	1,146,990	1,212,871
Prepayments, other receivables and other assets		56,335	50,743
Pledged deposits		8,988	15,498
Cash and cash equivalents		550,576	555,433
		<hr/>	<hr/>
Total current assets		2,831,852	2,868,088
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and notes payables	9	703,214	820,172
Other payables and accruals		201,044	299,132
Interest-bearing bank and other borrowings		–	22,094
Lease liabilities		1,996	1,634
Tax payable		66,150	58,216
Provision		11,480	11,487
		<hr/>	<hr/>
Total current liabilities		983,884	1,212,735
		<hr/>	<hr/>
NET CURRENT ASSETS		1,847,968	1,655,353
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,489,640	2,300,336
		<hr/>	<hr/>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

	30 September	31 March
	2022	2022
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	1,890	1,107
Deferred tax liabilities	69,605	50,920
Other liabilities	10,900	9,700
Deferred income	16,843	17,267
	<hr/>	<hr/>
Total non-current liabilities	99,238	78,994
	<hr/>	<hr/>
Net assets	2,390,402	2,221,342
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	319,836	319,836
Reserves	2,070,566	1,901,506
	<hr/>	<hr/>
Total equity	2,390,402	2,221,342
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 2 July 2013, and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 25 September 2017. The registered office address of the Company is PO Box 309, Ugland House, Grand Cayman KY 1-1104, Cayman Islands.

The Company is an investment holding company. During the period, the Group was primarily involved in the manufacture and sale of computer numerical control (“**CNC**”) high precision machine tools.

In the opinion of the directors of the Company (the “**Directors**”), the holding company and the ultimate holding company of the Company is Tsugami Corporation (the “**Controlling Shareholder**”), a company incorporated in Japan whose shares are listed on the Tokyo Stock Exchange.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 September 2022 has been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 March 2022.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 March 2022, except for the adoption of the following revised International Financial Reporting Standards (“**IFRSs**”) for the first time for the current period’s financial information.

Amendments to IFRS 3
Amendments to IAS 16
Amendments to IAS 37
Annual Improvements to
IFRS Standards 2018 – 2020

Reference to the Conceptual Framework
Property, Plant and Equipment: Proceeds before Intended Use
Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 1, IFRS 9, Illustrative Examples
accompanying IFRS 16, and IAS 41

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations for which the acquisition date is on or after 1 April 2022. The amendments did not have any impact on the financial position and performance of the Group as none of the contingent assets, liabilities and contingent liabilities arising from business combinations occurred during the period was within the scope of the amendments.
- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 April 2022. The amendments did not have any impact on the financial position or performance of the Group as there was no disposal of items of property, plant and equipment made available for use on or after 1 April 2022.
- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 April 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.
- (d) Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:

IFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendments prospectively to financial liabilities that are modified or exchanged on or after April 2022. The amendments did not have any impact on the financial position and performance of the Group as the Group did not have any modification of financial liabilities during the period.

IFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment, which is the manufacture and sale of CNC high precision machine tools. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

The Group only operates in Mainland China and all of the non-current assets of the Group are located in Mainland China.

4 REVENUE

An analysis of revenue is as follows:

Segments

	For the six months ended	
	30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Types of goods or services		
Sale of high CNC high precision machine tools	2,197,130	2,367,259
Rendering of services	3,230	3,080
	<u>2,200,360</u>	<u>2,370,339</u>
Total revenue from contracts with customers	<u>2,200,360</u>	<u>2,370,339</u>
Geographical information		
Mainland China	1,650,339	2,017,233
Overseas	550,021	353,106
	<u>2,200,360</u>	<u>2,370,339</u>
Total revenue from contracts with customers	<u>2,200,360</u>	<u>2,370,339</u>
Timing of revenue recognition		
Goods transferred at a point in time	2,197,130	2,367,259
Services rendered at a point in time	3,230	3,080
	<u>2,200,360</u>	<u>2,370,339</u>
Total revenue from contracts with customers	<u>2,200,360</u>	<u>2,370,339</u>

5 INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in that jurisdiction.

Hong Kong profits tax is to be provided at the rate of 16.5% (for the six months ended 30 September 2021: 16.5%).

The provision for Mainland China current income tax is based on the statutory rate of 25% (for the six months ended 30 September 2021: 25%) of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

The major components of income tax expense in the interim condensed consolidated statement of profit or loss and other comprehensive income are:

	For the six months ended	
	30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Income tax:		
Current tax	130,488	168,063
Deferred tax	11,595	14,116
	<hr/>	<hr/>
Total tax charge for the period	142,083	182,179
	<hr/> <hr/>	<hr/> <hr/>

6 DIVIDENDS

The proposed final dividend for the year ended 31 March 2022 of HK\$0.40 per share totalling HK\$152,321,600 was approved by the shareholders on 16 August 2022 and fully paid in September 2022.

7 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the reporting periods. The calculations of basic and diluted earnings per share are based on:

	For the six months ended	
	30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	300,693	377,657
	<u><u>300,693</u></u>	<u><u>377,657</u></u>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	380,804,000	380,804,000
	<u><u>380,804,000</u></u>	<u><u>380,804,000</u></u>

8 TRADE AND NOTES RECEIVABLES

	30 September	31 March
	2022	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables*	298,976	404,317
Notes receivable	850,129	810,954
Impairment	(2,115)	(2,400)
	<u><u>1,146,990</u></u>	<u><u>1,212,871</u></u>

* Trade receivables include trade receivables from the Controlling Shareholder and other related parties.

Customers are usually required to make payments in advance before the Group delivers goods to them. However, the Group's trading terms with certain major customers with good repayment history and high reputations are on credit. The credit period is generally one to six months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly and actively monitored by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are unsecured and non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 September 2022 RMB'000 (Unaudited)	31 March 2022 RMB'000 (Audited)
Within 3 months	259,350	286,091
3 months to 6 months	25,742	115,826
6 months to 1 year	11,769	–
	<u>296,861</u>	<u>401,917</u>

9 TRADE AND NOTES PAYABLES

	30 September 2022 RMB'000 (Unaudited)	31 March 2022 RMB'000 (Audited)
Trade payables*	566,820	665,190
Notes payable	136,394	154,982
	<u>703,214</u>	<u>820,172</u>

* Trade payables include trade payables to the Controlling Shareholder.

An ageing analysis of the outstanding trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 September 2022 RMB'000 (Unaudited)	31 March 2022 RMB'000 (Audited)
Within 3 months	566,493	664,864
Over 3 months	327	326
	<u>566,820</u>	<u>665,190</u>

Trade payables are non-interest-bearing, and trade payables to third parties are normally settled on terms within 90 days.

10 EVENTS AFTER THE REPORTING PERIOD

On 8 November 2022, the board of directors has declared an interim dividend of HK\$0.4 per share in aggregate of HK\$152,321,600 payable to the equity holders of the Company for the six months ended 30 September 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Period under Review, the COVID-19 pandemic continued to spread in Eastern China, especially in Shanghai. Under the strict prevention and control measures, the logistics and production in Eastern China were greatly affected. Since then, the resurgence of the pandemic across the country has made it difficult for the manufacturing industry to organize normal production activities nationwide, and the demand for CNC machine tools has gradually decreased accordingly. Although the Group's order backlog at the end of March was still higher than the corresponding period of the previous year, the downward trend of market demand in the following six months became increasingly apparent. Based on past experience, except for the relatively strong demand in the new energy vehicle parts and components industry, other downstream industries have entered a stagnation phase.

For the Period under Review, the Group recorded sales revenue of approximately RMB2,200,360,000, representing a decrease of approximately 7.2% as compared to the same period last year. The gross profit decreased by approximately 18.9% as compared to the same period last year to RMB534,098,000, and the gross profit margin was approximately 24.3%. The net profit was RMB300,693,000, representing a decrease of approximately 20.4% as compared to the same period last year, and the net profit margin was approximately 13.7%.

Basic earnings per share amounted to approximately RMB0.79 for the Period under Review, representing a decrease of approximately 20.2% as compared to the same period last year.

In the second half of this financial year, faced with the possibility of an increasingly severe economic situation, the Company, on one hand, is committed to reducing costs and managing inventory to resist the impact of external uncertainties while ensuring revenue, on the other hand, will continue to actively implement the Group's medium and long-term expansion strategy, and continue to invest in the equipment of Precision Tsugami (Anhui) Corporation* (安徽津上精密机床有限公司) (“**Tsugami Anhui**”) and the construction of the new factory in Pinghu. In addition to investing in new technologies and new models to upgrade existing models, the Company will vigorously strengthen the sales expansion of key products, adjust and strengthen business outlets, and explore potential market demand.

FINANCIAL REVIEW

Revenue

During the six months ended 30 September 2022, the Group's total revenue amounted to approximately RMB2,200,360,000, representing a period-on-period decrease of approximately RMB169,979,000 or 7.2%. The decrease in the total revenue was primarily due to a drop in the number of orders and delivery of the Company as a result of the decrease in demand for CNC machines tools in the PRC faced with the increased uncertainties such as the downward trend of the domestic economic situation in the second half of the year as well as the resurgence of the pandemic in many places across the PRC. In particular, (i) the sales of precision lathes decreased by approximately RMB203,047,000 or approximately 9.8%, which had a greater impact on the revenue of the Company; (ii) the sales of precision grinding machines also decreased by approximately 9.2% as compared with the same period last year; and (iii) other machine types such as precision machining centres recorded a turnaround growth of approximately 26.8% amidst the downturn of the economy, due to the increase in demand in the new energy vehicle parts and components industry.

The table below sets out the revenue breakdown by product category for the Period under Review and the same period of last year: (RMB'000)

	For the year ended 30 September 2022	Proportion (%)	For the year ended 30 September 2021	Proportion (%)	Year-on-year increase/ decrease (%)
Precision lathes	1,877,570	85.3%	2,080,617	87.8%	(9.8%)
Precision machining centres	152,315	6.9%	120,141	5.1%	26.8%
Precision grinding machines	82,048	3.8%	90,383	3.8%	(9.2%)
Others*	88,427	4.0%	79,198	3.3%	11.7%
Total	2,200,360	100%	2,370,339	100%	(7.2%)

* Others include sales of precision thread and from rolling machines, parts and components and after-sales service income.

Gross Profit and Gross Profit Margin

During the six months ended 30 September 2022, gross profit decreased by approximately 18.9% to approximately RMB534,098,000 as compared to the same period of last year. The overall gross profit margin was approximately 24.3%, which also decreased by approximately 3.5 percentage points from approximately 27.8% for the same period of last year, mainly due to (i) the negative effect of mass production on the overall gross profit of the Company brought by the considerable decrease in the number of orders and units produced by the Company as a result of the decrease in demand for machine tools in the manufacturing industry in the PRC faced with the uncertainties such as the downward trend of the domestic economic situation in the second half of the year and the resurgence of the pandemic in many places across the PRC; and (ii) the considerable decrease in the Company's bestselling machine types due to intensifying industry competition amid the downturn of the domestic economy, which also had a greater impact on the overall gross profit of the Company.

Other Income and Gains

Other income and gains of the Group primarily consist of bank interest income, gain on disposal of items of property, plant and equipment, government grants, compensation income, foreign exchange gains and others. During the six months ended 30 September 2022, other income and gains decreased by approximately RMB96,891,000 as compared to the same period of last year to approximately RMB42,815,000, primarily due to the one-off insurance compensation income from the fire which broke out in a production plant of the Group (the "Factory Fire") (details of which are set out in the announcement of the Company dated 18 August 2021) of RMB107,403,000 which occurred during the same period of last year.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of staff salaries and benefits, transportation and insurance expenses, warranty expenses, travelling expenses, office utility expenses, marketing and advertisement expenses and depreciation costs. During the Period under Review, selling and distribution expenses of the Group were approximately RMB75,672,000, accounting for approximately 3.4% of the Group's revenue, representing a decrease of approximately RMB3,735,000, or approximately 4.7%, as compared to the same period last year. It was mainly attributable to the decrease in shipping and transportation expenses, and insurance expenses and the decrease in warranty expenses as a result of the decrease in sales revenue during the Period under Review.

Administrative Expenses

Administrative expenses primarily consist of salaries and benefits for management, administrative and financial personnel, administrative costs, customization and development expenses, depreciation expenses relating to property, plant and equipment used for administrative purposes, amortisation expenses for the management information systems, and other taxes and levies. During the Period under Review, administrative expenses of the Group was approximately RMB54,660,000, which represented a period-on-period increase of approximately RMB8,481,000, or approximately 18.4%, mainly due to the increase in customization and development expenses and the increase in depreciation of buildings of Precision Nakatsu (China) Corporation* (中津精密機床(浙江)有限公司) (“**Precision Nakatsu**”), which was a new investment of the Group.

Other Expenses

Other expenses primarily include foreign exchange losses, losses on the disposal of fixed assets and others. During the Period under Review, the Group recorded other expenses of approximately RMB4,306,000, which decreased period-on-period by approximately RMB106,150,000, mainly due to the special loss arising from the asset loss of approximately RMB100,000,000 caused by the Factory Fire in the same period of last year.

Impairment Gains/Losses on Financial Assets

During the Period under Review, impairment gains on financial assets of the Group amounted to approximately RMB571,000, as compared to losses of RMB1,591,000 during the same period of last year, mainly due to the decrease in trade receivables during the Period under Review, and the decrease in impairment losses of financial assets arising from changes in fair values.

Finance Costs

During the Period under Review, finance costs of the Group were approximately RMB70,000 (for the same period of last year: RMB1,063,000), which was due to the bank bills of the Group yet to be discounted during the Period under Review.

Income Tax Expenses

During the Period under Review, income tax expenses of the Group decreased by approximately 22.0% as compared to the same period of last year to approximately RMB142,083,000, mainly due to the decrease in revenue and profit before tax.

Profit for the Period

Owing to the factors described above, the Group’s profit for the six months ended 30 September 2022 was RMB300,693,000, representing a decrease of approximately 20.4% or approximately RMB76,964,000 as compared to the same period of last year.

Liquidity, Financial Resources and Debt Structure

During the Period under Review, the Group continued to maintain a healthy and solid liquidity position by adopting a prudent financial management approach on its financing and treasury policies. As at 30 September 2022, total cash and cash equivalents of the Group amounted to approximately RMB550,576,000 (as at 31 March 2022: approximately RMB555,433,000). Such decline was mainly due to the decrease in net operating cash inflows brought by the decrease in revenue and profit of the Company (for the six months ended 30 September 2022, the net operating cash inflows of the Company were approximately RMB163,679,000).

As at 30 September 2022, the Group's cash and cash equivalents were mainly held in Renminbi and partly held in Hong Kong dollars and Japanese yen.

As at 30 September 2022, the Group recorded net current assets of approximately RMB1,847,968,000 (as at 31 March 2022: approximately RMB1,655,353,000) and its current ratio, calculated by dividing total current assets by total current liabilities, was approximately 2.9 times (as at 31 March 2022: approximately 2.4 times). Capital expenditures for the six months ended 30 September 2022 amounted to approximately RMB16,798,000, which was mainly used to fund the addition of factory buildings and mechanical equipment.

As at 30 September 2022, the Group had no outstanding bank loans and other borrowings (31 March 2022: nil) and discounted bills with recourse (31 March 2022: approximately RMB22,094,000), and lease liabilities amounted to approximately RMB1,996,000 (31 March 2022: approximately RMB1,634,000).

As at 30 September 2022, the Group's gearing ratio was approximately 0.08%, calculated by dividing the sum of bank loans and other borrowings, and lease liabilities by the total equity (31 March 2022: 1.1%).

Capital Commitments

As at 30 September 2022, the Group had capital commitments contracted but not provided for amounting to approximately RMB9,404,000 (as at 31 March 2022: approximately RMB18,782,000).

Significant Investment, Material Acquisition and Disposal of Subsidiaries and Associated Companies

In order to expand its production capacity, the Group invested in fixed assets of approximately RMB16,798,000 during the Period under Review, including approximately RMB4,309,000 in buildings, approximately RMB7,894,000 in machinery and equipment and approximately RMB4,595,000 in other investments.

To satisfy the high demand for CNC machine tools in the PRC market, the Group has planned ahead to increase production capacity of the Company in the future. In October 2021, a new company Precision Nakatsu was incorporated in Pinghu with a registered share capital of US\$35,000,000. Under the investment project, a land parcel of approximately 50,000 square metres and plant and ancillary buildings of approximately 25,800 square metres have been acquired. As at 30 September 2022, fixed assets of approximately RMB77,582,000 have been recognized, including factory buildings of approximately RMB47,924,000 and land use rights of approximately RMB29,658,000. The project is expected to have a production capacity of 4,000 to 4,500 units of CNC precision machine tools in the future with an annual production value of RMB1,000,000,000.

Save as disclosed above, the Group did not hold any other significant investment, nor did the Group make any material acquisition or disposal of subsidiaries and associated companies during the Period under Review.

Contingent Liabilities

As at 30 September 2022, the Group had no material contingent liabilities.

Currency Risk and Management

Apart from a few overseas businesses settled in Japanese yen and US dollars, the sales and procurement by the Group are mainly denominated in RMB, therefore the management of the Group believes that the Company does not have significant foreign exchange risk.

During the Period under Review, the Group did not enter into any foreign currency forward contracts or use any derivative contracts to hedge against its exposure. The Group manages its currency risk by closely monitoring the movement of the foreign currency rates and may consider hedging significant foreign currency exposure should the need arise.

Employees and Remuneration Policy

As at 30 September 2022, the Group employed 2,309 employees (as at 31 March 2022: 2,262), of whom 11 (as at 31 March 2022: 11) were transferred employees from the Controlling Shareholder. The Group's staff costs (including salaries, bonuses, social insurance, commercial insurance and provident funds) amounted to approximately RMB186,813,000 in aggregate (including directors' emoluments) (for the six months ended 30 September 2021: RMB153,339,000), representing approximately 8.49% of total revenue of the Group during the Period under Review.

The Group offers attractive remuneration packages, including competitive fixed salaries plus performance-based annual bonuses, and continuously provides specialized training to its employees to promote their upward mobility in the organization and foster employee loyalty. The Group's employees are subject to regular job performance reviews bearing on their promotion prospects and compensation. Remuneration is determined with reference to market norms and individual employee's performance, qualifications and experience.

OUTLOOK

Looking into the second half of the financial year, given that the COVID-19 pandemic and other factors that have a significant impact on the economic environment have seen no signs of adjustment and may face the possibility of an increasingly severe economic situation, the Group will take a more cautious approach to the performance in the second half of the financial year.

On one hand, the Group is committed to reducing costs and managing inventory to resist the impact of external uncertainties while ensuring revenue. On the other hand, the Group will continue to actively implement the Group's medium and long-term expansion strategy, continue to invest in the equipment of Tsugami Anhui and continue the construction of the new factory in Pinghu. In addition to investing in new technologies and new models to upgrade existing models, the Group will vigorously strengthen the sales expansion of key products, adjust and strengthen business outlets, and explore potential market demand.

The Group firmly believes that amid the major trend of upgrading and transformation of the PRC's manufacturing industry, despite cyclical market adjustments, the CNC machine tool market remains in the long-term rapid development phase. The Group will remain committed to introducing more customers to use the Group's products and take the Group's services in order to achieve long-term development of the Company.

EVENTS AFTER THE END OF THE PERIOD UNDER REVIEW

After the Period under Review and up to the date of this announcement, the Board was not aware of any significant events relating to the business or financial performance of the Group.

INTERIM DIVIDENDS

The Board declared the payment of an interim dividend of HK\$0.4 per share for the six months ended 30 September 2022 (2021: HK\$0.4) to the shareholders of the Company whose names appear on the register of members of the Company as at Thursday, 8 December 2022, the payment of which is expected to be made on Monday, 9 January 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the period from Tuesday, 6 December 2022 to Thursday, 8 December 2022 (both days inclusive), during which no transfer of shares will be registered. In order to be eligible for the interim dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Monday, 5 December 2022.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the six months ended 30 September 2022.

PUBLIC FLOAT

Based on information that was publicly available to the Company and to the best knowledge of the Board, as of the date of this announcement, the Company maintained the public float requirement as prescribed under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") of not less than 25%.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the Period under Review, the Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with the code provisions as set out in the CG Code during the Period under Review.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

The Company has adopted the Model Code (the “**Model Code**”) for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the Directors. Having made specific enquiries with all the Directors, the Company confirms that all the Directors have complied with the required standard as set out in the Model Code during the Period under Review.

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed the Group’s unaudited condensed consolidated interim financial results for the six months ended 30 September 2022 including the accounting principles and standards adopted by the Group and discussed with the management in respect of the auditing, risk management, internal control and financial information. At the request of the Board, the Company’s external auditor, Ernst & Young, has carried out a review of the unaudited condensed consolidated interim financial results in accordance with Hong Kong Standard on Review Engagement 2410 issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim report of the Company will be dispatched to the shareholders of the Company and published on the Hong Kong Exchanges and Clearing Limited’s website (www.hkexnews.hk) and the Company’s website (www.tsugami.com.cn) in due course.

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

Hong Kong, 8 November 2022

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

* *for identification purpose only*