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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)

INSIDE INFORMATION ANNUAL SECURITIES REPORT OF THE CONTROLLING SHAREHOLDER, TSUGAMI CORPORATION FOR THE YEAR ENDED 31 MARCH 2023

This announcement is issued by Precision Tsugami (China) Corporation Limited (the “**Company**”) pursuant to Part XIVA of the Securities and Futures Ordinance and Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Reference is made to the announcement made by the Company on 11 May 2023 in relation to the financial results of the Company’s controlling shareholder, Tsugami Japan, for the year ended 31 March 2023 (the “**Announcement**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless otherwise defined.

According to the Announcement, Tsugami Japan will file the Tsugami Japan’s Annual Securities Report on 21 June 2023. The Board wishes to update the shareholders and potential investors of the Company that following Tsugami Japan’s adoption of IFRS as its accounting standard, certain additional financial information and/or related information relating to the Group will be included in Tsugami Japan’s Annual Securities Report.

Although Tsugami Japan adopts the same accounting standard as the Group adopted for the preparation and presentation of its consolidated financial results and related financial information, the difference in entities comprising Tsugami Japan’s consolidation and the Group’s consolidation makes the financial results and related information set forth in Tsugami Japan’s Annual Securities Report not directly comparable to the financial results and related financial information that the Company discloses. For example, any inter-company transactions between Tsugami Japan and the Group would be eliminated for Tsugami Japan’s Annual Securities Report but remain recorded for the Group’s financial results.

Set out below is the disclosure in relation to the financial performance and/or business of the Group as extracted from Tsugami Japan’s Annual Securities Report:

Extracted and translated from Tsugami Japan's Annual Securities Report

– Released by Tsugami Japan and prepared under IFRS

4. Situations of affiliates

Name	Address	Capital or investments	Major business	Ownership of voting rights (%)	Relations
Precision Tsugami (China) Corporation Limited (Note 1)	The Cayman Islands	380 million Hong Kong dollar	Holding Company	70.9	Holds all shares in Precision Tsugami (Hong Kong) Limited. There are interlocking officers.
Precision Tsugami (Hong Kong) Limited (Note 1, 3)	Hong Kong, China	767 million Hong Kong dollar	Holding Company	100 (100)	Holds all shares in Precision Tsugami (China) Corporation.
Precision Tsugami (China) Corporation (Note 1, 2, 3)	Zhejiang, China	517 million yuan	Manufacturing and sales of machine tools in China	100 (100)	Manufactures and sells products of the Company. There are interlocking officers.
Shinagawa Precision Machinery (Zhejiang) Co., Ltd (Note 3)	Zhejiang, China	35 million yuan	Manufacturing and sales of machine tool castings in China	100 (100)	Manufactures and sells of machine tool castings for products of the Company. There are interlocking officers.
Precision Tsugami (Anhui) Corporation (Note 1, 3)	Anhui, China	150 million yuan	Manufacturing and sales of machine tools, castings in China	100 (100)	Manufactures and sells mainly the products of the Company and castings for products of the Company. There are interlocking officers.
Precision Nakatsu (China) Corporation (Note 1, 3)	Zhejiang, China	223 million yuan	Manufacturing and sales of machine tools in China	100 (100)	Plans to manufacture and sell the products of the Company. There are interlocking officers.

(Note)

1. The Company is classified as a specified subsidiary.
2. The ratio of the net sales of Precision Tsugami (China) Corporation (excluding intra-Group sales among consolidated companies) to consolidated net sales exceeded 10%.

Information on major profit and other items

(1) Revenue	¥80,056 million
(2) Profit before tax	¥17,135 million
(3) Profit	¥13,126 million
(4) Total equity	¥42,579 million
(5) Total assets	¥63,543 million

3. The figure in the parenthesis is the indirect ownership of voting rights.

5. Employees

(1) Group employees

As of March 31, 2023

Business segment	Number of employees
China	2,237 (-)

(Note)

1. The number of employees is the number of people employed by the Group. The figure in parentheses is the annual average of temporary employees and is not included in the number of employees.

4 Analysis of financial position, operating results, and cash flows by management

(1) Overview of operating results, etc.

① Financial position and operating results

(Operating results)

(Operating results by business segment)

- b. In China, revenue was ¥80,346 million, up by 3.4% year over year. Segment profit was ¥15,395 million, down by 2.9% year over year.

③ Production, orders received, and sales

- a. Production performance

The table below shows production performance by segment for the fiscal year under review.

Business segment	Consolidated fiscal year under review (from April 1, 2022 to March 31, 2023)	Year on year (%)
China (Million yen)	<u>45,748</u>	<u>105.7</u>

(Note)

1. The amounts above are amounts before intra-Group transfers based on standard invoice prices.
2. The amounts above do not include consumption taxes.

c. Sales performance

The table below shows sales performance by business segment for the fiscal year under review.

Business segment	Consolidated fiscal year under review (from April 1, 2022 to March 31, 2023)	Year on year (%)
China (Million yen)	<u>62,140</u>	<u>96.1</u>

(Note)

1. Transactions between the segments were canceled out.

(2) Analysis and consideration of operating results, etc. from the perspective of management

① *The recognition, analysis and consideration of operating results, etc.*

- a. Analysis of operating results for the consolidated fiscal year under review (Revenue)

Breakdown by region of overseas net sales in the consolidated fiscal year under review are as follows:

	China
I Overseas revenue (Million yen)	62,048
III Ratio of overseas revenue to consolidated revenue (%)	65.3

(Note)

1. National or regional classifications are based on geographic proximity.
3. Overseas revenue refers to revenue achieved by the Company and its consolidated subsidiaries in countries or regions other than Japan.

(Segment)

- c. Information on analysis/consideration of cash flows, source of capital and liquidity of funds

The Group plans to make capital expenditures including the extension and structural alteration of the new factory in Zhejiang, China and the construction of a new factory in India with cash provided by operating activities, etc., as stated in “Section 3. Facilities, 3. Equipment introduction and retirement plans.”

Section 3. Facilities

1. Overview of capital investment

Capital expenditures in China were ¥962 million, which was allocated primarily to production facilities at Precision Tsugami (China) Corporation and Precision Tsugami (Anhui) Corporation, and Precision Nakatsu (China) Corporation.

2. Major facilities

The table below shows major facilities of the Group.

(2) Overseas subsidiary

As of March 31, 2023

Corporate name	Factory (location)	Business segment	Facilities	Buildings	Book value (Million yen)				Total	Number of employees
					Machinery and equipment	Land (m ²)	Other	Right-of-use assets		
Precision Tsugami (China) Corporation	China factory (Zhejiang, China)	China	Equipment for producing machine tools	2,499	1,747	-	119	515	4,881	2,006 (-)
Precision Tsugami (Anhui) Corporation	China factory (Anhui, China)	China	Equipment for producing machine tools	2,954	1,139	-	56	186	4,337	167 (-)
Shinagawa Precision Machinery (Zhejiang) Co., Ltd	China factory (Zhejiang, China)	China	Equipment for producing machine tools	269	88	-	25	53	436	64 (-)
Precision Nakatsu (China) Corporation	China factory (Zhejiang, China)	China	Equipment for producing machine tools	746	63	-	0	569	1,378	-

(Note)

1. The book value in the “Other” column is a total value of tools, and equipment and fixtures and does not include construction in progress.
2. The number in parentheses in the number of employee’s column is the number of temporary employees.

3. *Equipment introduction and retirement plans*

The table below shows plans for the introduction of important equipment as of the end of the fiscal year under review.

Corporate name, factory	Location	Business segment	Facilities	Planned investments			Planned start and completion date	
				Total (Million yen)	Amount paid (Million yen)	Financing method	Start	Completion
Precision Nakatsu (China) Corporation	Zhejiang, China	China	Buildings	2,510	-	Self-financing	March 2023	December 2023

Notes to Consolidated Financial Statements

6. *Segment information*

(2). *Segment revenues and operating results*

The accounting policies for the reportable segments are the same as the Group's accounting policies stated in Note "3. Significant accounting policies." The amount of paid-for parts and materials transactions with subsidiaries is included in inter-segment revenue.

Inter-segment revenues are based on market prices.

Revenues and operating results of the Group's reportable segments are as follows.

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022)

	<i>(Million yen)</i>
	Reportable segment China
Revenue	
External	64,656
Inter-segment	13,051
	<hr/>
Total	77,707
	<hr/> <hr/>
Segment profit (loss)	15,862
	<hr/> <hr/>
Other items	
Depreciation and amortization	1,031
Impairment losses	—
Segment assets	67,365
Capital expenditure	2,520
	<hr/> <hr/>

(Note)

1. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from sales revenue.

Consolidated fiscal year under review (from April 1, 2022 to March 31, 2023)

(Million yen)

	Reportable segment China
Revenue	
External	62,140
Inter-segment	<u>18,206</u>
Total	<u><u>80,346</u></u>
Segment profit (loss)	<u><u>15,395</u></u>
Other items	
Depreciation and amortization	1,230
Impairment losses	—
Segment assets	68,231
Capital expenditure	<u><u>1,022</u></u>

(Note)

1. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from sales revenue.

(4) Regional information

The breakdown of revenues and non-current assets by region is as follows.

Revenue from external customers

(Million yen)

	Previous consolidated fiscal year (From April 1, 2021 to March 31, 2022)	Consolidated fiscal year under review (From April 1, 2022 to March 31, 2023)
China	<u><u>62,943</u></u>	<u><u>62,048</u></u>

(Note) Revenues are classified by country or region based on the customer's location.

Non-current assets

(Million yen)

	Previous consolidated fiscal year (March 31 2022)	Consolidated fiscal year under review (March 31 2023)
China	<u>12,162</u>	<u>11,908</u>

(Note) Non-current assets are classified based on their location and do not include financial instruments, deferred tax assets and assets related to retirement benefits.

25. Revenue

(1) Disaggregation of revenue

The relationship between the disaggregation of revenue based on major product lines and reportable segments is as follows.

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022)

(Million yen)

	Reportable segment China
Major product lines	
Automatic lathes	56,174
Grinding machines	2,834
Machining centers, Rolling machines and Specialized machines	4,171
Other	<u>1,476</u>
Total	<u><u>64,656</u></u>

(Note) “Other” in main product lines include components and services.

Consolidated fiscal year under review (from April 1, 2022 to March 31, 2023)

(Million yen)

	Reportable segment China
Major product lines	
Automatic lathes	52,417
Grinding machines	3,018
Machining centers, Rolling machines and Specialized machines	4,995
Other	<u>1,708</u>
 Total	 <u><u>62,140</u></u>

(Note) “Other” in main product lines include components and services.

27. Other income and expenses

The breakdown of other income is as follows.

(Million yen)

	Previous consolidated fiscal year (From April 1, 2021 to March 31, 2022)	Consolidated fiscal year under review (From April 1, 2022 to March 31, 2023)
Insurance income	1,938	48
Government subsidy	<u>980</u>	<u>1,082</u>

(Note)

- Insurance income during the previous consolidated fiscal year include insurance related to a fire accident at our subsidiary, Precision Tsugami (China) Corporation, which occurred on 17 August 2021.
- The subsidy income is mainly the government subsidy received by the Chinese subsidiary.

34. Significant subsidiaries

(2) Consolidated subsidiaries with significant non-controlling interests

The condensed consolidated financial information of consolidated subsidiaries for which the Company recognizes significant non-controlling interests is as follows. The condensed financial information shows amounts before eliminating intra-group transactions.

Precision Tsugami (China) Corporation Limited (this company and its subsidiaries)

① Percentage interest owned by non-controlling interests

	Previous consolidated fiscal year (As of March 31, 2022)	Consolidated fiscal year under review (As of March 31, 2023)
Percentage interest owned by non-controlling interests (%)	<u>29.1</u>	<u>29.1</u>

② Condensed consolidated financial information

(i) Condensed consolidated statement of financial position

(Million yen)

	Previous consolidated fiscal year (As of March 31, 2022)	Consolidated fiscal year under review (As of March 31, 2023)
Current assets	55,239	55,743
Non-current assets	12,422	12,408
Current liabilities	23,357	16,942
Non-current liabilities	1,521	2,098
Equity	42,783	49,111
Accumulated amount of non-controlling interests	12,213	13,899

Major items of current assets are “cash and cash equivalents”, “trade and other receivables” and “inventories”, while the major item of non-current assets is “property, plant and equipment”, and the major item of current liabilities is “trade and other payables”.

(ii) Condensed Consolidated Statements of Income and Comprehensive Income

(Million yen)

	Previous consolidated fiscal year (From April 1, 2021 to March 31, 2022)	Consolidated fiscal year under review (From April 1, 2022 to March 31, 2023)
Revenue	77,436	79,926
Profit	11,692	11,438
Other comprehensive income	–	–
Comprehensive income	11,692	11,438
Profit allocated to non-controlling interests	3,148	3,127
Dividends paid to non-controlling interests	1,039	1,580

(iii) Condensed Consolidated Statements of Cash Flows

(Million yen)

	Previous consolidated fiscal year (From April 1, 2021 to March 31, 2022)	Consolidated fiscal year under review (From April 1, 2022 to March 31, 2023)
Cash flows from operating activities	7,525	15,077
Cash flows from investing activities	-2,055	-7,569
Cash flows from financing activities	-3,274	-5,865
Net increase (decrease) in cash and cash equivalents	2,195	1,641

38. Post-balance sheet events

(Disposal of existing shares in affiliate company)

At the board meeting held by our Company on April 21 2023, it was resolved to pursue a plan for the disposal of certain shares held in our affiliate company, Precision Tsugami (China) Corporation Limited (which is listed on The Stock Exchange of Hong Kong Limited, and hereinafter referred to as PTC).

(1). Overview

There has always been market anticipation to improve the circulation of the shares of PTC. Accordingly, we decide to dispose a portion of our shares in PTC, which represents approximately 5.9% of the issued share capital of PTC.

① Details of the affiliate company

Company name: Precision Tsugami (China) Corporation Limited

② Number of shares intended to be disposed: 22,470,000 shares of PTC (representing approximately 5.9% of the issued share capital of 380,804,000 shares of PTC)

After the intended disposal, our shareholding in PTC is expected to decrease from 70.9% to 65.0%.

(2). Impact on profit and loss

The disposal of shares will be no impact on the consolidated profit and loss.

Notes

(Important post-balance sheet events)

Disposal of existing shares in affiliate company

At the board meeting held by our Company on April 21 2023, it was resolved to pursue a plan for the disposal of certain shares held in our affiliate company, Precision Tsugami (China) Corporation Limited (which is listed on The Stock Exchange of Hong Kong Limited, and hereinafter referred to as PTC).

(1) Overview

There has always been market anticipation to improve the circulation of the shares of PTC. Accordingly, we decide to dispose a portion of our shares in PTC, which represents approximately 5.9% of the issued share capital of PTC.

① Details of the affiliate company

Company name: Precision Tsugami (China) Corporation Limited

② Number of shares intended to be disposed: 22,470,000 shares of PTC (representing approximately 5.9% of the issued share capital of 380,804,000 shares of PTC)

After the intended disposal, our shareholding in PTC is expected to decrease from 70.9% to 65.0%.

(2) Impact on profit and loss

The disposal of shares will be recorded as a special profit in the financial statements for the year ending 31 March 2024. The amount will be announced once it is determined. (In addition, there will be no impact on the consolidated profit and loss.)

Tsugami Japan's Disclosures contain forward-looking information. Tsugami Japan has full and independent discretion as to the determination of such forward-looking information by considering factors which Tsugami Japan considers appropriate and relevant for its reporting and disclosure purposes. Forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, the Company's results may differ from those expressed in any forward-looking statements made by Tsugami Japan, including the Tsugami Japan's Disclosures. In light of the risks and uncertainties, the forward-looking information in the Tsugami Japan's Disclosures should not be regarded as representations by the Board or the Company, or that the plans and objectives will be achieved by the Company. The Company's shareholders and potential investors are advised not to place undue reliance on the contents of Tsugami Japan's Disclosures and to exercise caution in dealing in the securities of the Company.

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

Hong Kong, 21 June 2023

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.