# 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)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2023

The board (the "**Board**") of directors (the "**Directors**") of Precision Tsugami (China) Corporation Limited (the "**Company**") hereby announces the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 March 2023 (the "**Year under Review**") together with the comparative figures for the corresponding period in 2022.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Year ended 31 March | |
|---|---|---|---|
| | | **2023** | 2022 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| **REVENUE** | *4* | **4,046,902** | 4,419,887 |
| Cost of sales | | **(3,010,781)** | (3,246,858) |
| **Gross profit** | | **1,036,121** | 1,173,029 |
| Other income and gains | *4* | **68,357** | 180,334 |
| Selling and distribution expenses | | **(148,343)** | (162,723) |
| Administrative expenses | | **(105,559)** | (95,918) |
| Impairment loss on financial assets, net | | **2,587** | (898) |
| Other expenses | | **(11,470)** | (117,849) |
| Finance costs | *5* | **(674)** | (2,141) |
| **PROFIT BEFORE TAX** | *6* | **841,019** | 973,834 |
| Income tax expense | *7* | **(261,831)** | (306,430) |
| **PROFIT FOR THE YEAR** | | **579,188** | 667,404 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **579,188** | 667,404 |
| **ATTRIBUTABLE TO:** | | | |
| Owners of the parent | | **579,188** | 667,404 |

| | Note | Year ended 31 March **2023** *RMB* | 2022 *RMB* |
|---|---|---|---|
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| Basic and diluted | | | |
| – For profit for the year | *8* | **1.52** | 1.75 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 31 March | |
|---|---|---|---|
| | | **2023** | 2022 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **535,989** | 549,841 |
| Right-of-use assets | | **71,708** | 73,303 |
| Intangible assets | | **5,144** | 5,533 |
| Equity investments designated at fair value through other comprehensive income | | **2,800** | – |
| Deferred tax assets | | **23,314** | 16,306 |
| Total non-current assets | | **638,955** | 644,983 |
| **CURRENT ASSETS** | | | |
| Inventories | | **1,055,191** | 1,033,543 |
| Trade and notes receivables | *9* | **817,892** | 1,212,871 |
| Prepayments, other receivables and other assets | | **19,755** | 50,743 |
| Cash and bank balances | | **977,572** | 570,931 |
| Total current assets | | **2,870,410** | 2,868,088 |
| **CURRENT LIABILITIES** | | | |
| Trade and notes payables | *10* | **626,673** | 820,172 |
| Other payables and accruals | | **166,472** | 299,132 |
| Lease liabilities | | **1,719** | 1,634 |
| Tax payable | | **67,871** | 58,216 |
| Interest-bearing bank and other borrowings | | **–** | 22,094 |
| Provision | | **9,674** | 11,487 |
| Total current liabilities | | **872,409** | 1,212,735 |
| **NET CURRENT ASSETS** | | **1,998,001** | 1,655,353 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,636,956** | 2,300,336 |

| | As at 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT LIABILITIES** | | |
| Lease liabilities | **1,439** | 1,107 |
| Deferred tax liabilities | **78,106** | 50,920 |
| Deferred income | **16,418** | 17,267 |
| Other liabilities | **12,100** | 9,700 |
| Total non-current liabilities | **108,063** | 78,994 |
| **NET ASSETS** | **2,528,893** | 2,221,342 |
| **EQUITY** | | |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | | |
| Issued capital | **319,836** | 319,836 |
| Reserves | **2,209,057** | 1,901,506 |
| **TOTAL EQUITY** | **2,528,893** | 2,221,342 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | **841,019** | 973,834 |
| **Adjustments for:** | | |
| Finance costs | **674** | 2,141 |
| Bank interest income | **(10,023)** | (12,393) |
| Loss on disposal of items of property, plant and equipment | **7,502** | 891 |
| Depreciation of property, plant and equipment | **56,869** | 53,820 |
| Depreciation of right-of-use assets | **4,591** | 3,814 |
| Amortisation of intangible assets | **1,373** | 1,215 |
| Impairment loss (reversed)/recognized of trade receivables | **(939)** | 769 |
| Impairment loss (reversed)/recognized of financial assets at fair value through other comprehensive income | **(1,646)** | 121 |
| Impairment loss recognized/(reversed) of inventories | **6** | (8,819) |
| Impairment loss (reversed)/recognized of financial assets included in prepayments, other receivables and other assets | **(3)** | 8 |
| | **899,423** | 1,015,401 |
| Decrease/(increase) in pledged deposits | **15,498** | (7,959) |
| Increase in inventories | **(21,654)** | (349,305) |
| Decrease/(increase) in trade and notes receivables | **397,564** | (225,557) |
| Decrease/(increase) in prepayments, other receivables and other assets | **30,991** | (16,267) |
| (Decrease)/increase in trade and notes payables | **(193,499)** | 265,699 |
| (Decrease)/increase in other payables and accruals | **(30,672)** | 7,667 |
| Increase in other liabilities | **2,400** | 2,400 |
| (Decrease)/increase in contract liabilities | **(101,988)** | 16,067 |
| (Decrease)/increase in provision | **(1,813)** | 3,610 |
| Decrease in deferred income | **(849)** | (733) |
| Cash generated from operations | **995,401** | 711,023 |
| Income taxes paid | **(231,998)** | (281,509) |
| **Net cash flows from operating activities** | **763,403** | 429,514 |

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | **10,023** | 12,393 |
| Purchases of items of property, plant and equipment | **(54,125)** | (97,304) |
| Proceeds from disposal of items of property, plant and equipment | **3,606** | 440 |
| Purchase of equity investments designated at fair value through other comprehensive income | **(2,800)** | – |
| Additions to right-of-use assets | **–** | (30,247) |
| Additions to intangible assets | **(984)** | (2,597) |
| Investment in time deposits with original maturity of more than three months | **(339,000)** | – |
| **Net cash flows used in investing activities** | **(383,280)** | (117,315) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| New bank loans | **–** | 22,094 |
| Repayment of bank loans | **(22,094)** | – |
| Principal portion of lease payments | **(2,579)** | (2,424) |
| Dividends paid | **(271,637)** | (204,410) |
| Interest paid | **(674)** | (2,141) |
| **Net cash flows used in financing activities** | **(296,984)** | (186,881) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **83,139** | 125,318 |
| Cash and cash equivalents at beginning of year | **555,433** | 430,115 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **638,572** | 555,433 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and cash equivalents | **638,572** | 555,433 |

# NOTES TO 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 year, the Company and its subsidiaries were primarily involved in the manufacture and sale of high precision computer numerical control ("**CNC**") machine tools.

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.

***Information about subsidiaries***

Particulars of the Company's subsidiaries are as follows:

| Name of company | Date of incorporation/ registration and place of operations | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Precision Tsugami (Hong Kong) Limited *(note(a))* ("**Precision Tsugami Hongkong**") | 24 September 2013 Hong Kong, China | HK$767,718,112 | 100 | – | Investment holding |
| 津上精密機床(浙江)有限公司*(note(b))* Precision Tsugami (China) Corporation* ("**Precision Tsugami Zhejiang**") | 11 September 2003 Zhejiang, China | US$78,700,000 | – | 100 | Manufacture and sale of high precision CNC machine tools |
| 浙江品川精密機械有限公司*(note(b))* Shinagawa Precision Machinery (Zhejiang) Co., Ltd.* ("**Shinagawa Precision**") | 24 November 2010 Zhejiang, China | RMB35,000,000 | – | 100 | Manufacture and sale of precision machine tool castings |
| 安徽津上精密機床有限公司*(note(b))* Precision Tsugami (Anhui) Corporation* ("**Precision Tsugami Anhui**") | 18 April 2018 Anhui, China | RMB150,000,000 | – | 100 | Manufacture and sale of high precision CNC machine tools and precision machine tool castings |
| 中津精密機床(浙江)有限公司*(note(b))* Precision Nakatsu (China) Corporation* ("**Precision Nakatsu China**") | 28 October 2021 Zhejiang, China | US$35,000,000 | – | 100 | Manufacture and sale of CNC machine tools and metal cutting machine tools |

*Notes:*

* The English names of the subsidiaries registered in the People's Republic of China (the "**PRC**") represent the best efforts made by the management of the Company to translate their Chinese names as these subsidiaries do not have official English names.

(a) This entity is a limited liability company incorporated in Hong Kong.

(b) These entities are registered as limited liability companies under the laws of the PRC.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for notes receivable which have been measured at fair value. These financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

***Basis of consolidation***

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 March 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has the rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows related to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policies of the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest, and (iii) the cumulative translation differences recorded in owner's equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained, and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to IFRS 3 | *Reference to the Conceptual Framework* |
| Amendments to IAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use* |
| Amendments to IAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract* |
| Annual Improvements to IFRS Standards 2018-2020 | *Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41* |

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

(a) Amendments to IFRS 3 are intended to 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* (the "**Conceptual Framework**") issued in March 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 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 that occurred on or after 1 April 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

(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 as determined by IAS 2 *Inventories*, 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 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use during the period, the amendments did not have any impact on the financial position or performance of the Group.

(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 Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 April 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(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 amendment prospectively from 1 April 2022. As there was no modification of the terms of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

- 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 is not organised into business units based on their products and only has one reportable operating segment which is the manufacture and sale of high precision CNC machine tools. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

### Geographical information

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

| | **Year ended 31 March** | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Mainland China | **3,105,711** | 3,553,799 |
| Overseas | **941,191** | 866,088 |
| | **4,046,902** | 4,419,887 |

The revenue information above is based on the locations of customers.

**Information about major customers**

Revenue from an individual customer which accounted for 10% or more of the Group's revenue is set out below:

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Customer A | **899,709** | 695,851 |

## 4 REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue from contracts with customers** | | |
| Sale of goods | **4,040,837** | 4,413,862 |
| Rendering of services | **6,065** | 6,025 |
| | **4,046,902** | 4,419,887 |

### (i) Disaggregated revenue information

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **Type of goods or services** | | |
| Sale of goods | **4,040,837** | 4,413,862 |
| Precision lathes | **3,467,575** | 3,870,022 |
| Precision machining centres | **247,817** | 233,935 |
| Precision grinding machines | **162,858** | 169,599 |
| Other components | **162,587** | 140,306 |
| Rendering of services | **6,065** | 6,025 |
| Total revenue from contracts with customers | **4,046,902** | 4,419,887 |
| **Geographical markets** | | |
| Mainland China | **3,105,711** | 3,553,799 |
| Overseas | **941,191** | 866,088 |
| Total revenue from contracts with customers | **4,046,902** | 4,419,887 |
| **Timing of revenue recognition** | | |
| Goods transferred at a point in time | **4,040,837** | 4,413,862 |
| Services rendered at a point in time | **6,065** | 6,025 |
| Total revenue from contracts with customers | **4,046,902** | 4,419,887 |

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Sale of goods | **180,783** | 164,716 |

There was no revenue recognised from performance obligations satisfied in previous periods.

**(ii) Performance obligations**

Information about the Group's performance obligations is summarised below:

***Sale of goods***

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 180 days from delivery. Certain contracts provide customers with a right of return which give rise to variable consideration subject to constraint.

***Rendering of services***

The performance obligation is satisfied upon the rendering of the promised service to the customers and payment is generally due within 30 days from delivery.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 March are as follows:

| | As at 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Amounts expected to be recognised as revenue: | | |
| Within one year | **78,795** | 180,783 |

An analysis of other income and gains is as follows:

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **Other income and gains** | | |
| Bank interest income | **10,023** | 12,393 |
| Government grants *(Note (a))* | **55,344** | 56,585 |
| Compensation income | **35** | 585 |
| Foreign exchange gain, net | **1,703** | – |
| Insurance compensation for a fire incident | **–** | 110,530 |
| Others | **1,252** | 241 |
| | **68,357** | 180,334 |

*Note a:* *The amount represents grants received from the local PRC government related to subsidies. There are no unfulfilled conditions or contingencies relating to these grants. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position.*

## 5 FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **Finance costs** | | |
| Interest on lease liabilities | **132** | 45 |
| Interest arising from discounted notes receivable | **542** | 2,096 |
| | **674** | 2,141 |

## 6 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories sold* | **3,008,160** | 3,244,305 |
| Cost of services provided | **2,621** | 2,553 |
| Impairment loss recognized/(reversed) of inventories ** | **6** | (8,819) |
| Depreciation of property, plant and equipment | **56,869** | 53,820 |
| Depreciation of right-of-use assets | **4,591** | 3,814 |
| Amortisation of intangible assets | **1,373** | 1,215 |
| Research and development costs | **34,427** | 27,305 |
| Lease payments not included in the measurement of lease liabilities | **3,313** | 2,415 |
| Auditor's remuneration | | |
| – Annual audit | **1,370** | 1,370 |
| Employee benefit expense (including directors' remuneration): | | |
| Wages and salaries | **306,796** | 277,686 |
| Pension scheme contributions | **25,829** | 19,201 |
| Social security contributions and accommodation benefits | **37,444** | 31,428 |
| Foreign exchange (gain)/loss | **(1,703)** | 5,256 |
| Impairment of financial assets, net: | | |
| Impairment loss (reversed)/recognized of trade receivables | **(939)** | 769 |
| Impairment loss (reversed)/recognized of financial assets at fair value through other comprehensive income | **(1,646)** | 121 |
| Impairment loss (reversed)/recognized of financial assets included in prepayments, other receivables and other assets | **(3)** | 8 |
| Warranty provision: | | |
| Additional provision | **7,427** | 12,667 |
| Bank interest income | **(10,023)** | (12,393) |
| Loss on disposal of items of property, plant and equipment | **7,502** | 891 |
| Loss from a fire incident | **–** | 110,865 |
| Insurance compensation for a fire incident | **–** | (110,530) |
| Government grants | **(55,344)** | (56,585) |

* The cost of inventories sold includes the following expenses which are also included in the respective total amounts of the items disclosed above:

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Depreciation of property, plant and equipment | **44,351** | 46,145 |
| Employee benefit expense | **225,361** | 201,131 |

** Impairment loss recognized/(reversed) of inventories during the year is included in "cost of sales" in the consolidated statement of profit or loss.

## 7 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% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong.

The provision for Mainland China current income tax is based on the statutory rate of 25% (2022: 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 "**New Corporate Income Tax Law**").

The major components of income tax expense are as follows:

| | **Year ended 31 March** | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Current tax | **241,653** | 284,411 |
| Deferred tax | **20,178** | 22,019 |
| **Total tax charge for the year** | **261,831** | 306,430 |

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | **Year ended 31 March** | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **841,019** | 973,384 |
| Tax at the statutory tax rate | **210,832** | 244,429 |
| Adjustments in respect of current tax of previous periods | **663** | 1,278 |
| Expenses not deductible for tax | **350** | 770 |
| Tax losses and temporary differences not recognised | **253** | 37 |
| Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries | **57,686** | 66,267 |
| Research and development super deduction | **(7,953)** | (6,351) |
| Total tax charge at the Group's effective tax rate | **261,831** | 306,430 |

## 8 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 380,804,000 (2022: 380,804,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2023 and 2022.

The calculation of basic earnings per share is based on:

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation | **579,188** | 667,404 |

| | Number of shares | |
|---|---|---|
| | **2023** | 2022 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **380,804,000** | 380,804,000 |

## 9 TRADE AND NOTES RECEIVABLES

| | As at 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables * | **219,414** | 404,317 |
| Impairment | **(1,461)** | (2,400) |
| | **217,953** | 401,917 |
| Notes receivable | **599,939** | 810,954 |
| | **817,892** | 1,212,871 |

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

Customers are usually required to make payment 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 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.

At 31 March 2023, the Group endorsed certain notes receivable accepted by banks in China (the "**Endorsed Notes**") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB285,754,000 (2022: RMB345,166,000) (the "**Endorsement**"). In addition, the Group discounted certain notes receivable accepted by banks in Mainland China (the "**Discounted Notes**") with a carrying amount in aggregate of RMB110,514,000 (2022: RMB82,707,000) (the "**Discount**"). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have the right of recourse against the Group if the Mainland China banks default (the "**Continuing Involvement**").

In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to the Endorsed Notes and Discounted Notes accepted by large and reputable banks with amounts of RMB117,251,000 (2022: RMB111,194,000) and RMB110,514,000 (2022: RMB60,613,000), respectively (the "**Derecognised Notes**"). Accordingly, the Group has derecognised the full carrying amounts of these Derecognised Notes and the associated trade payables.

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

At 31 March 2023, the Group continued to recognise the remaining Endorsed Notes and the associated trade payables with an amount of RMB168,503,000 (2022: RMB233,972,000) and to recognise the remaining Discounted Notes with an amount of nil (2022: RMB22,094,000) as short-term loans because the directors believe that the Group has retained substantially all the risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

Notes receivable of RMB599,939,000 (2022: RMB810,954,000) were classified as financial assets at fair value through other comprehensive income under IFRS 9.

A receivable is an entity's right to consideration that is unconditional. An entity shall recognise a receivable in accordance with IFRS 9. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with IFRS 9 and the corresponding amount of revenue recognised shall be presented as an impairment loss. In the subsequent measurement of financial assets at fair value through other comprehensive income, impairment reversals are recognised in the statement of profit or loss and computed in the same manner as financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income.

The Group's notes receivable were all aged within six months and were neither past due nor impaired.

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:

| | As at 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **214,469** | 286,091 |
| 3 months to 6 months | **3,484** | 115,826 |
| | **217,953** | 401,917 |

The movements in the loss allowance for impairment of trade and notes receivables are as follows:

| | As at 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| At the beginning of the year | **2,400** | 1,631 |
| Impairment losses | **(939)** | 769 |
| At the end of the year | **1,461** | 2,400 |

The decrease (2022: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i). A decrease in the loss allowance of RMB939,000 (2022: increase of RMB769,000) as a result of a net decrease (2022: increase) in the gross carrying amount after the settlement of trade receivables and origination of new trade receivables;

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

**As at 31 March 2023**

| | | **Past due** | | | |
|---|---|---|---|---|---|
| | **Current** | **Less than 1 month** | **1 to 3 months** | **Over 3 months** | **Total** |
| Expected credit loss rate | **0.666%** | **–** | **–** | **–** | **0.666%** |
| Gross carrying amount (RMB'000) | **219,414** | **–** | **–** | **–** | **219,414** |
| Expected credit losses (RMB'000) | **1,461** | **–** | **–** | **–** | **1,461** |

As at 31 March 2022

| | Current | Past due: Less than 1 month | Past due: 1 to 3 months | Past due: Over 3 months | Total |
|---|---|---|---|---|---|
| Expected credit loss rate | 0.594% | – | – | – | 0.594% |
| Gross carrying amount (RMB'000) | 404,317 | – | – | – | 404,317 |
| Expected credit losses (RMB'000) | 2,400 | – | – | – | 2,400 |

## 10 TRADE AND NOTES PAYABLES

| | As at 31 March **2023** ***RMB'000*** | 2022 *RMB'000* |
|---|---|---|
| Trade payables* | **545,268** | 665,190 |
| Notes payable | **81,405** | 154,982 |
| | **626,673** | 820,172 |

* 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:

| | As at 31 March **2023** ***RMB'000*** | 2022 *RMB'000* |
|---|---|---|
| Within 3 months | **545,105** | 664,864 |
| Over 3 months | **163** | 326 |
| | **545,268** | 665,190 |

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

## 11 DIVIDENDS

| | Year ended 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Final dividends paid for the year ended 31 March 2022 – HK$0.40 per ordinary share (HK$0.25 per ordinary share for the year ended 31 March 2021) | **131,633** | 79,158 |
| Interim dividends paid for the six months ended 30 September 2022 – HK$0.40 per ordinary share (HK$0.40 per ordinary share for the six months ended 30 September 2021) | **140,004** | 125,252 |
| | **271,637** | 204,410 |

On 28 June 2023, the Board declared the payment of a final dividend of HK$0.40 per share, amounting to HK$152,321,600, for the year ended 31 March 2023. The source of the proposed dividend payment is scheduled to be the retained profits. The proposed final dividend is subject to the approval by shareholders of the Company at the forthcoming annual general meeting.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Since the beginning of the Year under Review, the COVID-19 pandemic continued to spread in Eastern China, especially in Shanghai. Along with the strict prevention and control measures, the logistics and production of the manufacturing industry in Eastern China were greatly affected. Since then, the resurgence of the pandemic and prevention and control across the country has made it difficult for the manufacturing industry to maintain normal production activities, which has led to a relatively significant negative impact on the demand for CNC machine tools. Since the second half of the year, the downward trend of market demand has become increasingly apparent, causing the downstream industries to lose confidence in the macroeconomic situation. By now, the boom in the last two years up to May 2022 has stopped. During the Year under Review, the market demand continued to decline and the CNC machine tool industry was in a downward adjustment phase.

During the Year under Review, the Group's sales revenue was approximately RMB4,046,902,000, representing a decrease of approximately 8.4% as compared with the same period last financial year. The gross profit margin decreased from approximately 26.5% in the same period last financial year to approximately 25.6% for the Year under Review. The net profit for the Year under Review was approximately RMB579,188,000, and the net profit margin was approximately 14.3%, representing a year-on-year decrease of approximately 0.8 percentage point.

Taking into account the relatively significant changes in the overall manufacturing industry during the Year under Review, the management considered that the above results were within expectations.

During the Year under Review, in the face of intense market competition, the Group devoted more efforts to improving product performance and service quality and reducing costs, strived to succeed in the competition by providing more cost-effective products and higher quality services to customers, and achieved positive results. On the other hand, the Group continued to actively implement its medium and long-term expansion strategy, invest in the equipment of Tsugami Anhui, carry out the plant construction of the new factory in Pinghu, and invest in the development of new technologies and new models to replace and upgrade the existing models. In addition, the Group significantly enhanced the sales expansion of its key products, adjusted and improved its business outlets, expanded and explored potential market demand.

## FINANCIAL REVIEW

### Revenue

During the Year under Review, the total revenue decreased by approximately 8.4%, or approximately RMB372,985,000, from approximately RMB4,419,887,000 last year to approximately RMB4,046,902,000 this year. Such decrease was primarily due to multiple unexpected factors at home and abroad, including the tightening of domestic COVID-19 prevention and control measures (including the lockdown in Eastern China such as Shanghai) in the first half of the Year under Review and the repeated outbreak of COVID-19 and lockdown in various regions in the second half of the Year under Review, as well as the international factors of geopolitical uncertainties, which led to the weakened demand and tightened capital expenditure of most downstream industries of the Company, resulting in certain adverse impact on orders for the Group's machine tools. In particular, (i) precision lathes recorded sales of approximately RMB3,467,575,000 during the Year under Review, representing a year-on-year decrease of approximately 10.4%; (ii) the precision machining centres recorded sales of approximately RMB247,817,000 during the Year under Review, representing a year-on-year increase of approximately 5.9% due to the increase in demand for machine tools in the new energy vehicle industry; (iii) precision grinding machines recorded sales of approximately RMB162,858,000 during the Year under Review, representing a year-on-year decrease of approximately 4.0%; and (iv) other sales which mainly included sales of ancillary parts and components recorded approximately RMB168,652,000, representing a year-on-year increase of approximately 15.3%.

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

| | **For the year ended 31 March 2023** | **Proportion (%)** | For the year ended 31 March 2022 | Proportion (%) | **Year-on-year increase/ (decrease) (%)** |
|---|---|---|---|---|---|
| Precision lathes | **3,467,575** | **85.7%** | 3,870,022 | 87.6% | **(10.4)%** |
| Precision machining centres | **247,817** | **6.1%** | 233,935 | 5.3% | **5.9%** |
| Precision grinding machines | **162,858** | **4.0%** | 169,599 | 3.8% | **(4.0)%** |
| Others* | **168,652** | **4.2%** | 146,331 | 3.3% | **15.3%** |
| **Total** | **4,046,902** | **100%** | 4,419,887 | 100% | **(8.4)%** |

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

### Gross Profit and Gross Profit Margin

The gross profit during the Year under Review decreased by approximately 11.7% to approximately RMB1,036,121,000 as compared to last year. The overall gross profit margin also decreased from approximately 26.5% in the last financial year to approximately 25.6% during the Year under Review, which was mainly due to the overall downward trend in the sales of the domestic machine tool industry under the influence of the domestic and overseas economic environment during the Year under Review. The sales and production of the Company were also affected to varying degrees, and the decrease in economies of scale affected the gross profit margin of the Company. Benefiting from the decrease in raw material prices in the second half of 2022 and the substantial improvements in cost reduction and efficiency enhancement made by the Company, which partially offset the impact of smaller sales, the gross profit margin for the whole financial year only decreased slightly.

### Other Income and Gains

Other income and gains of the Group primarily consist of bank interest income, exchange gains, government grants and others. During the Year under Review, other income and gains decreased by approximately 62.1% as compared with the previous financial year to approximately RMB68,357,000. The decrease was primarily due to the large amount of one-off insurance compensation income of RMB110,530,000 received by the Company from insurance companies as a result of the fire incident last financial year, and the decrease in interest income earned during the Year under Review.

### Selling and Distribution Expenses

Selling and distribution expenses primarily consist of staff salaries and benefits, transportation and insurance costs, warranty expenses, travel expenses, office utility expenses, marketing and advertisement expenses and depreciation costs. During the Year under Review, selling and distribution expenses of the Group amounted to approximately RMB148,343,000, representing a decrease of approximately 8.8% as compared with last year, accounting for approximately 3.7% of the Group's revenue for the Year under Review. Such decrease in expenses was mainly attributable to the adjustment of transportation costs to product sales costs in accordance with the requirements of accounting standards and the decrease in warranty expenses during the Year under Review.

### Administrative Expenses

Administrative expenses primarily consist of salaries and benefits for management, administrative and financial personnel, administrative costs, customisation 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 expenditure.

During the Year under Review, administrative expenses amounted to approximately RMB105,559,000, representing an increase of approximately 10.1% as compared with last year, which was mainly due to the increases in development expenses and depreciation and amortisation expenses by administrative department during the Year under Review.

### Other Expenses

Other expenses primarily include exchange losses, losses on the disposal of fixed assets, bank handling fees and others. During the Year under Review, other expenses amounted to approximately RMB11,470,000, representing a decrease of approximately RMB106,379,000 as compared with the previous financial year. Such decrease was mainly due to the large amount of fire losses arising from the fire incident in the last financial year, which amounted to approximately RMB110,865,000 and the decrease in exchange loss as a result of the appreciation of the exchange rate of Japanese Yen against Renminbi during the Year under Review.

### Impairment Losses on Financial Assets

During the Year under Review, the provision for net impairment gains on financial assets amounted to approximately RMB2,587,000, as compared to the provision for net impairment losses of approximately RMB898,000 last year. This was mainly due to the decrease in trade and bills receivables during the Year under Review.

### Finance Costs

During the Year under Review, finance costs were approximately RMB674,000 (for the same period last year: approximately RMB2,141,000), which was mainly due to the decrease in interest arising from the discounting of bank bills during the Period under Review as compared with that of the same period last year.

### Income Tax Expenses

During the Year under Review, income tax expenses decreased by approximately 14.6% as compared with last year to approximately RMB261,831,000, which was mainly due to the decrease in revenue and profit before tax.

### Profit for the Year

As a result of the aforementioned factors, the Group's profit for the year decreased by approximately 13.2% from approximately RMB667,404,000 for the year ended 31 March 2022 to approximately RMB579,188,000 for the year ended 31 March 2023.

**Liquidity, Financial Resources and Debt Structure**

During the Year under Review, the Group continued to maintain a healthy and solid liquidity position by adopting a prudent financial management approach towards its funding and treasury policies. As at 31 March 2023, the total cash and cash equivalents of the Group amounted to approximately RMB638,572,000 (31 March 2022: approximately RMB555,433,000). Such increase was mainly due to the increase in net cash flows from operating activities and decrease in capital investment expenditures such as purchase of plant and equipment.

As at 31 March 2023, the Group's cash and cash equivalents were mainly held in Renminbi, and part of them were held in Hong Kong dollars and Japanese yen ("**JPY**").

As at 31 March 2023, the Group recorded net current assets of approximately RMB1,998,001,000 (31 March 2022: approximately RMB1,655,353,000). Capital expenditures for the year ended 31 March 2023 amounted to approximately RMB57,909,000, which was mainly utilised to finance the addition of processing equipment, and addition and purchase of design and management software.

As at 31 March 2023, the Group had no outstanding bank loans (31 March 2022: nil) and had no discounted bills with recourse (31 March 2022: approximately RMB22,094,000). As at 31 March 2023, the Group's gearing ratio was approximately 0.12% (31 March 2022: 1.1%), calculated by dividing the total debt (i.e. bank loans and other borrowing and lease liabilities) by the total equity.

An analysis of the Group's key liquidity ratios is as follows:

| | **For the year ended 31 March** | |
|---|---|---|
| | **2023** | 2022 |
| Average inventory turnover days *(Note 1)* | **127** | 96 |
| Average turnover days of trade and notes receivables *(Note 2)* | **92** | 91 |
| Average turnover days of trade and notes payables *(Note 3)* | **88** | 76 |

| | **As at 31 March** | |
|---|---|---|
| | **2023** | 2022 |
| Current ratio *(Note 4)* | **3.3** | 2.4 |

*Notes:*

1. Average inventory turnover days are calculated based on the average balance of inventory at the beginning and end of the relevant financial year divided by the cost of sales for the relevant financial year multiplied by 365 days.

2. Average turnover days of trade and notes receivables are calculated based on the average balances of trade and notes receivables at the beginning and end of the relevant financial year divided by the revenue for the relevant financial year multiplied by 365 days.

3. Average turnover days of trade and notes payables are calculated based on the average balances of trade and notes payables at the beginning and end of the relevant financial year divided by the cost of sales for the relevant financial year multiplied by 365 days.

4. Current ratio is calculated based on total current assets divided by total current liabilities as at the end of the relevant financial year.

**Average inventory turnover days**

The Group's average inventory turnover days for the year ended 31 March 2023 were approximately 127 days, representing an increase of 31 days as compared to last year. On one hand, the decrease in orders since the second half of 2022 led to a decrease of approximately 8.4% in sales in this financial year as compared with the corresponding period of last year. On the other hand, the adjustment cycle of inventory lagged behind the sales and shipments to some extent, and the average balance of inventory in this financial year increased by approximately 22.2% as compared with the same period last year. The superimposed impacts of the two factors resulted in a significant increase in the average inventory turnover days during the Year under Review.

**Average turnover days of trade and notes receivables**

The Group's average turnover days of trade and notes receivables for the year ended 31 March 2023 were approximately 92 days, representing an increase of approximately 1 day as compared to last year. It was mainly due to the synchronised decline in sales and average balance of trade and bills receivables for the year ended 31 March 2023. There was basically no significant fluctuation in the average turnover days. The relevant trade receivables were all within normal credit terms.

**Average turnover days of trade and notes payables**

The Group's average turnover days of trade and notes payables for the year ended 31 March 2023 were approximately 88 days, representing an increase of approximately 12 days as compared to last year, which was mainly due to the increase of 5.3% in the average balance of trade and bills payables for the year ended 31 March 2023 as compared with the previous financial year, while the cost of sales decreased slightly during the Year under Review.

**Current ratio**

As at 31 March 2023, the Group's current ratio was approximately 3.3 times (31 March 2022: 2.4 times), which was mainly attributable to the decrease in procurement of materials resulting from the decrease in production volume of the Company during the Year under Review. The balance of trade payables as at 31 March 2023 decreased by approximately 24% and the overall current liabilities decreased by approximately 28%.

**Capital Commitment**

The Group had the following capital commitments at the end of the reporting period:

| | As at 31 March | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Contracted, but not provided for: | | |
| Property, plant and equipment* | **105,902** | 18,782 |
| Equity investment designated at fair value through other comprehensive income | **6,700** | – |
| | **112,602** | 18,782 |

* The increase was mainly due to an increase of approximately RMB100 million in investment expenditure of Precision Nakatsu's new plant contracted for implementation in the new financial year.

**Contingent Liabilities**

As at 31 March 2023, the Group had no material contingent liabilities (31 March 2022: nil).

**Currency Risk and Management**

Apart from a few overseas businesses that are settled in JPY and United States dollars, the sales and procurement of the Group are mainly denominated in Renminbi. As such, the management of the Group believes that the Company does not have significant currency exchange risk.

During the Year 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 exchange rates and may consider hedging against significant foreign currency exposure should the need arises.

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

On 18 April 2018, the Company established a wholly-owned subsidiary of the Company, Tsugami Anhui, in Bowang District, Ma'anshan, Anhui Province, the PRC, which commenced production in April 2021. During the Year under Review, Tsugami Anhui expanded its machining capacity of parts and components continuously, with an increase of approximately RMB26,716,000 in fixed assets, of which production equipment increased by approximately RMB25,774,000.

Precision Nakatsu (China) Corporation has a registered capital of US$35 million. In this investment project, a parcel of land of 50,000 square metres and plant and ancillary buildings of 25,800 square metres have been acquired. As at 31 March 2023, the amount accounted as fixed assets was approximately RMB78,308,000, including approximately RMB48,061,000 for the plants and approximately RMB30,247,000 for the land use rights. The plant, with an estimated future production capacity of 4,000-4,500 units and an annual production value of RMB1,000,000,000, is currently being used as a warehouse. In order to ensure the Company's future production capacity, the Company plans to build another plant in the existing plant area of Nakatsu Company, with a planned investment amount of approximately RMB130 million.

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

**Employees and Remuneration Policy**

As at 31 March 2023, the Group employed 2,238 employees (31 March 2022: 2,262), of whom 11 (31 March 2022: 11) were transferred employees from the Controlling Shareholder. The Group's staff costs (including salaries, bonuses, social insurance and provident funds) amounted to approximately RMB370,069,000 (31 March 2022: RMB328,315,000) in aggregate, accounting for approximately 9.1% of the total revenue of the Group during the Year under Review.

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

## OUTLOOK

In 2023, although the direct impact of pandemic prevention and control no longer exists, the indirect impact has not yet completely disappeared. It remains to be seen whether the international geopolitical conflicts will result in a new pattern of economic globalization. On the other hand, China has the largest manufacturing industry in the world, and the upgrading and transformation from labor-intensive manufacturing to technology-intensive manufacturing and further to intelligent manufacturing are still the main theme for the continuous development of China's manufacturing industry.

The Group still firmly believes that the long-term strong demand for high-end CNC machine tools from the PRC manufacturing industry due to transformation and upgrading will remain unchanged. Adhering to the Group's medium and long-term development goals, we will continue to expand our product lines, expand our production capacity and strengthen our marketing and after-sales service systems.

Meanwhile, in view of the possible fluctuation in the short and medium-term market demand and the possibility of further intensified competition in the industry, the improvement of product performance and service quality and reduction of cost have been the most important business issues for the Group at present. By providing customers with the most competitive and cost-effective products, we will overtake our competitors and increase our market share.

The Group has experienced 20 years of development since its establishment in September 2003. It has grown substantially and been well recognized by the manufacturing industry and capital market in the PRC. The management of the Company has continuously summed up and reflected on the experience and lessons learned over the past 20 years, and gained a deeper understanding and accumulated experience on its own business philosophy and business model, as well as the market environment, products, downstream industries and customers. As such, we are confident in achieving medium and long-term development goals in the future.

## EVENTS AFTER THE END OF THE YEAR UNDER REVIEW

The Directors are not aware of any material events relating to the business or financial performance of the Group after the Year under Review and up to the date of this announcement.

## DIVIDENDS

The Board recommended the payment of a final dividend of HK$0.40 per share, amounting to HK$152,321,600 for the year ended 31 March 2023 to the shareholders of the Company whose names appear on the register of members of the Company as at Friday, 25 August 2023.

The payment of the proposed final dividend is subject to approval by the shareholders of the Company at the annual general meeting for the financial year ended 31 March 2023 (the "**AGM**"). The final dividend is expected to be paid to the shareholders of the Company on Friday, 15 September 2023.

## 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 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

The Company has adopted the Corporate Governance Code (the "**CG Code**") under Appendix 14 to the Listing Rules as its own code of corporate governance since the listing of the shares of the Company on 25 September 2017. The Company has complied with the code provisions of the CG Code set out therein during the Year under Review, save for the deviation from code provisions C.1.8 and C.2.1 of the CG Code due to reasonable grounds (as explained below).

During the year, the potential legal actions against the Directors of the Company were covered by the Company's internal risk management and controls. As the Company is of view that there is no additional risk, no insurance arrangements have been made for the Directors in accordance with code provision C.1.8 of the CG Code.

Dr. Tang Donglei has been serving as both the Chairman and Chief Executive Officer of the Company with effect from 1 April 2022. Pursuant to code provision C.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Accordingly, the Company has deviated from the relevant code provision of the CG Code. The Board however believes that it is in the interests of the Company to vest the roles of both the Chairman and the Chief Executive Officer of the Company in the same person, so as to ensure consistent leadership within the Group and facilitate the prompt execution of the Group's business strategies and boost operation effectiveness. The Board also believes that the balance of power and authority under this arrangement will not be impaired, as all major decisions of the Group must be made in consultation with the Board as a whole, together with its relevant committees, which comprise experienced and high calibre individuals, including three independent non-executive Directors who are in the position to provide independent insights to the Board and monitor the management and operation of the Company. The Board will periodically review and consider the effectiveness of this arrangement by taking into account the circumstances of the Group as a whole.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") 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 due and careful inquiries with all the Directors, the Company confirms that all the Directors have complied with the required standards as set out in the Model Code during the Year under Review.

## AUDIT COMMITTEE

Immediately before the change of Directors which takes effect as at the date of this announcement, the audit committee of the Company (the "**Audit Committee**") consisted of three members, namely Mr. Tam Kin Bor, Dr. Huang Ping and Mr. Motoi Yamada, of whom Mr. Tam Kin Bor and Dr. Huang Ping are independent non-executive Directors and Mr. Motoi Yamada was a non-executive Director. The chairman of the Audit Committee is Mr. Tam Kin Bor. Following the resignation of Mr. Motoi Yamada as a non-executive Director, Mr. Kenji Yoneyama has been appointed as a non-executive Director and a member of the audit committee with effect from 28 June 2023. The primary duties of the Audit Committee include, among others, reviewing the financial statements, annual reports and accounts and interim reports of the Group, making recommendations in respect of the appointment, re-appointment and removal of external auditor, reviewing and supervising the financial reporting process, risk management and internal control system of the Group, supervising the environmental, social and governance (ESG) issues of the Company, and reviewing the accounting policies and practices adopted by the Group.

The Audit Committee has reviewed the Group's audited consolidated financial statements during the Year under Review 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 ESG report review.

## REMUNERATION COMMITTEE

As at the date of this announcement, the remuneration committee of the Company (the "**Remuneration Committee**") consists of three members, namely Dr. Huang Ping, Mr. Tam Kin Bor and Dr. Tang Donglei, of whom Dr. Huang Ping and Mr. Tam Kin Bor are independent non-executive Directors and Dr. Tang Donglei is the chairman, chief executive officer and an executive Director. The chairman of the Remuneration Committee is Dr. Huang Ping. The primary duties of the Remuneration Committee include, among others, making recommendations to the Board regarding the policy and structure for the remuneration of all Directors and senior management of the Group and on the establishment of a formal and transparent procedure for developing remuneration policies, making recommendations to the Board on the remuneration packages of Directors and senior management of the Group and reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives.

## NOMINATION COMMITTEE

As at the date of this announcement, the nomination committee of the Company (the "**Nomination Committee**") consists of three members, namely Mr. Takao Nishijima, Dr. Huang Ping and Mr. Tam Kin Bor, of whom Dr. Huang Ping and Mr. Tam Kin Bor are independent non-executive Directors and Mr. Takao Nishijima is a non-executive Director. The chairman of the Nomination Committee is Mr. Tam Kin Bor. The primary duties of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to act as a Director, reviewing the structure, size and composition of the Board on a regular basis and as required, evaluating the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer.

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

During the Year under Review, there was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries.

## ANNUAL GENERAL MEETING

The forthcoming AGM of the Company will be held in Hong Kong on Friday, 18 August 2023. Notice of the AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 August 2023 to Friday, 18 August 2023, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to qualify for attending and voting at the forthcoming AGM, all transfer 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, 14 August 2023. In addition, the register of members of the Company will be closed from Thursday, 24 August 2023 to Friday, 25 August 2023, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfer 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 Wednesday, 23 August 2023.

## SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statements of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows and relevant notes thereto for the year ended 31 March 2023 as set out in the preliminary results announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently no assurance has been expressed by Ernst & Young on the preliminary results announcement.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.tsugami.com.cn). The Company's annual report for the year ended 31 March 2023 will be dispatched to the shareholders of the Company and published on the above websites 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, 28 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 are Mr. Takao Nishijima, Ms. Mami Matsushita and Mr. Kenji Yoneyama; and the independent non-executive directors are Dr. Iwabuchi Satoshi, Dr. Huang Ping and Mr. Tam Kin Bor.*