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 2023

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 2023 (the "**Period under Review**") together with the unaudited comparative figures for the corresponding period in 2022. Such results have been reviewed by the external auditor Ernst & Young and the audit committee of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the six months ended 30 September 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
REVENUE	4	**1,494,386**	2,200,360
Cost of sales		**(1,080,309)**	(1,666,262)
GROSS PROFIT		**414,077**	534,098
Other income and gains		**49,056**	42,815
Selling and distribution expenses		**(76,062)**	(75,672)
Administrative expenses		**(54,207)**	(54,660)
Impairment on financial assets, net		**1,326**	571
Other expenses		**(7,545)**	(4,306)
Finance costs		**(606)**	(70)
PROFIT BEFORE TAX		**326,039**	442,776
Income tax expense	5	**(104,781)**	(142,083)
PROFIT FOR THE PERIOD		**221,258**	300,693
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**221,258**	300,693
ATTRIBUTABLE TO:			
Owners of the parent		**221,258**	300,693
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
—For profit for the period	7	**0.58**	0.79

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 September 2023** ***RMB'000*** **(Unaudited)**	31 March 2023 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**563,555**	535,989
Right-of-use assets		**73,248**	71,708
Intangible assets		**5,229**	5,144
Equity investments designated at fair value through other comprehensive income		**3,775**	2,800
Deferred tax assets		**24,723**	23,314
Total non-current assets		**670,530**	638,955
CURRENT ASSETS			
Inventories		**883,526**	1,055,191
Trade and notes receivables	*8*	**738,106**	817,892
Prepayments, other receivables and other assets		**19,534**	19,755
Cash and bank balances		**1,071,934**	977,572
Total current assets		**2,713,100**	2,870,410
CURRENT LIABILITIES			
Trade and notes payables	*9*	**393,577**	626,673
Other payables and accruals		**187,637**	166,472
Lease liabilities		**2,258**	1,719
Tax payable		**66,742**	67,871
Provision		**7,371**	9,674
Total current liabilities		**657,585**	872,409
NET CURRENT ASSETS		**2,055,515**	1,998,001
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,726,045**	2,636,956

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	30 September 2023	31 March 2023
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	**2,441**	1,439
Deferred tax liabilities	**84,439**	78,106
Deferred income	**15,994**	16,418
Other liabilities	**13,142**	12,100
Total non-current liabilities	**116,016**	108,063
NET ASSETS	**2,610,029**	2,528,893
EQUITY		
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		
Issued capital	**319,836**	319,836
Reserves	**2,290,193**	2,209,057
TOTAL EQUITY	**2,610,029**	2,528,893

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 address of the Company is located at 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.

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 2023 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 2023.

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 2023, except for the adoption of the following new and revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information.

IFRS 17	*Insurance Contracts*
Amendments to IFRS 17	*Insurance Contracts*
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

(a) IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces the existing IFRS 4 *Insurance Contracts*. The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions apply. The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which were largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of the standard is the general model, supplemented by:

   – a specific adaptation for contracts with direct participation features (the variable fee approach); and

   – a simplified approach (the premium allocation approach) mainly for short-duration contracts.

   As the Group did not have contracts within the scope of IFRS 17, the standard did not have any impact on the financial position or performance of the Group.

(b) Amendments to IFRS 17 include changes to simplify certain requirements in the standard and make financial performance easier to explain. The amendments also provide additional reliefs to reduce the effort required for the transition to IFRS 17. As the Group did not have contracts within the scope of IFRS 17, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendment to IFRS 17 is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17, which helps to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and to improve the usefulness of comparative information for users of financial statements. An entity that chooses to apply the transition option set out in this amendment shall apply it on initial application of IFRS 17. As the Group did not have contracts within the scope of IFRS 17, the amendment did not have any impact on the financial position or performance of the Group.

(d) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 April 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(e) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 April 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(f) Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases and decommissioning obligations as at 1 April 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases and decommissioning obligations that occurred on or after 1 April 2022, if any. The amendments did not have any impact on the financial position or performance of the Group.

(g) Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 April 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

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.

4 REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 September	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods	**1,491,153**	2,197,130
Rendering of services	**3,233**	3,230
	1,494,386	2,200,360

Disaggregated revenue information for Revenue from contracts with customers.

	For the six months ended 30 September	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Type of goods or services		
Sale of high CNC high precision machine tools	**1,491,153**	2,197,130
Rendering of services	**3,233**	3,230
Total revenue from contracts with customers	**1,494,386**	2,200,360
Geographical markets		
Mainland China	**1,248,770**	1,650,339
Overseas	**245,616**	550,021
Total revenue from contracts with customers	**1,494,386**	2,200,360
Timing of revenue recognition		
Goods transferred at a point in time	**1,491,153**	2,197,130
Services rendered at a point in time	**3,233**	3,230
Total revenue from contracts with customers	**1,494,386**	2,200,360

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 2022: 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 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 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	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax	**99,857**	130,488
Deferred tax	**4,924**	11,595
Total tax charge for the period	**104,781**	142,083

6 DIVIDENDS

The proposed final dividend for the year ended 31 March 2023 of HK$0.40 per share totalling HK$152,321,600 was approved by the shareholders on 18 August 2023 and fully paid in September 2023.

On 10 November 2023, the Board declared an interim dividend of HK$0.4 per share in aggregate of HK$152,321,600 for the six months ended 30 September 2023 payable to the equity holders whose names appear on the register of members of the Company as of 12 December 2023.

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 earnings per share are based on:

	For the six months ended 30 September	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	**221,258**	300,693
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**380,804,000**	380,804,000

8 TRADE AND NOTES RECEIVABLES

	30 September 2023 RMB'000 (Unaudited)	31 March 2023 RMB'000 (Audited)
Trade receivables*	**131,228**	219,414
Notes receivable	**608,069**	599,939
Impairment	**(1,191)**	(1,461)
	738,106	817,892

* 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 2023 RMB'000 (Unaudited)	31 March 2023 RMB'000 (Audited)
Within 3 months	**126,445**	214,469
3 months to 6 months	**3,592**	3,484
	130,037	217,953

9 TRADE AND NOTES PAYABLES

	30 September 2023 RMB'000 (Unaudited)	31 March 2023 RMB'000 (Audited)
Trade payables*	**342,354**	545,268
Notes payable	**51,223**	81,405
	393,577	626,673

* 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 2023	31 March 2023
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**342,338**	545,105
Over 3 months	**16**	163
	342,354	545,268

Trade payables are interest-free and trade payables to third parties are generally settled on terms within 90 days.

10 EVENTS AFTER THE REPORTING PERIOD

On 10 November 2023, the Board declared an interim dividend of HK$0.4 per share in aggregate of HK$152,321,600 for the six months ended 30 September 2023 payable to the equity holders whose names appear on the register of members of the Company as of 12 December 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Period under Review, affected by the macroeconomic situation, the domestic manufacturing industry was still in a period of adjustment, and the demand for CNC machine tools remained sluggish. The sales and profit of the Group recorded a decrease as compared to the same period last year. After the adjustment of the COVID-19 pandemic prevention policy, the market has yet to experience a retaliatory demand rebound, and investment confidence has not been restored. In addition, the problems in real estate industry have been intensifying, and the domestic macro economy lacks bright spots. At the same time, in terms of the international situation, the impact on the international and domestic investment environment is gradually becoming apparent due to the intensified geopolitical antagonism. In the above-mentioned general economic environment, the manufacturing industry has also been negatively affected. There is generally insufficient operating capacity, leading to a weak demand for production equipment. As a result, sales to the domestic manufacturing industry continued to decline from the previous financial year. At the same time, revenue from export business also decreased.

During the Period under Review, the Group's orders decreased, sales revenue and net profit decreased by approximately 32.1% and 26.4% year-on-year to approximately RMB1,494,386,000 and RMB221,258,000 respectively. Despite the significant decline in operating revenue and profit, it is worth noting that the profitability during the Period under Review has been significantly improved. Gross profit margin increased by approximately 3.4 percentage points to approximately 27.7% as compared to the same period of last year. Net profit margin increased by approximately 1.1 percentage points to approximately 14.8% as compared to the same period of last year.

Basic earnings per share during the Period under Review was approximately RMB0.58 (same period of last year: RMB0.79), representing a decrease of approximately 26.6%, as compared to the same period last year.

During the Period under Review, the Group mobilised employees to actively participate in the improvement proposal activities, and strived for excellence in production process, technology research and development, cost control and sales operation. In particular, after years of efforts to reduce costs throughout the supply chain, the Company was still able to constantly improve and enhance its profitability despite the increasingly obvious price competition in the market competition. This shows that the effect of the Group's improvement measures which the Group has vigorously pushed forward over the past few years has begun to be clearly reflected in the Company's performance, which has given the Group's management more confidence. Through our continuous efforts, we are confident that we can hold an advantageous position in the fierce market competition by providing our customers with cost-effective products and quality services. In terms of sales, the Group actively participated in various local trade fairs to strengthen the connection with end customers. Under the environment of lack of demand in the whole market, the Company has clearly defined its objectives, developed and explored certain potential but less engaged segments, and expanded the customer base of the downstream industries of the Company's products.

On the other hand, the Group continued to promote its production expansion plan. During the Period under Review, with the view of preparing for the introduction of new technologies and updating of product models in the future, the Group increased its investment in the equipment of Tsugami Anhui to expand its machining capacity of parts and components, and continued to construct the new factory in Pinghu. The construction of the new factory in Pinghu is expected to be completed and put into operation in July 2024.

FINANCIAL REVIEW

Revenue

During the six months ended 30 September 2023, the total revenue of the Group amounted to approximately RMB1,494,386,000 representing a decrease of approximately RMB705,974,000 or approximately 32.1% as compared with the same period of last year. The decrease in the total revenue was primarily due to the PRC's general economy in a downward cycle, the industry continues to be sluggish, customers have insufficient rate of operation, and the demand for purchasing equipment has declined. Therefore, the demand for CNC machine tools has decreased, leading to a decline in the orders and deliveries of the Company, (i) the sales of precision lathes decreased approximately RMB616,164,000 or approximately 32.8%, which had the biggest impact on the Company's revenue; (ii) the sales of precision machining centres decreased significantly by 51.4% as compared with the same period of last year due to the gloomy 3C and automobile industries; and (iii) precision grinding machines recorded a basically same revenue as compared with the same period of last year.

The table below sets out the revenue breakdown by product category for the periods indicated: (RMB'000)

	For the six months ended 30 September 2023	**Proportion (%)**	For the six months ended 30 September 2022	Proportion (%)	**Year-on-year increase/ (decrease) (%)**
Precision lathes	**1,261,406**	**84.4%**	1,877,570	85.3%	**(32.8%)**
Precision machining centres	**73,961**	**5.0%**	152,315	6.9%	**(51.4%)**
Precision grinding machines	**81,227**	**5.4%**	82,048	3.8%	**(1.0%)**
Others*	**77,792**	**5.2%**	88,426	4.0%	**(12.0%)**
Total	**1,494,386**	**100%**	2,200,360	100%	**(32.1%)**

* 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 six months ended 30 September 2023 amounted to approximately RMB414,077,000, representing a year-on-year decrease of approximately 22.5% as compared with the same period of last year. Despite the decrease in the number of orders and production units, owing to the Group's efforts in reducing costs and increasing efficiency, the overall gross profit margin increased by approximately 3.4 percentage points to approximately 27.7% as compared to approximately 24.3% for the same period of last year.

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 2023, other income and gains increased by approximately RMB6,241,000 as compared with the same period of last year to approximately RMB49,056,000, primarily due to the increase in bank interest income of approximately RMB9,967,000 as a result of the increase in the Company's cash and bank balances during the Period under Review, but was partially offset by a decrease in government subsidies of software tax rebates of RMB4,411,000.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of staff salaries and benefits, transportation and insurance expenses, warranty expenses, travel expenses, office utility expenses, marketing and advertisement expenses and depreciation costs. During the Period under Review, selling and distribution expenses of the Group amounted to approximately RMB76,062,000, representing a slight increase of approximately RMB390,000, or approximately 0.5% as compared to the same period of last year, accounting for approximately 5.1% of the Group's revenue. Such increase was mainly due to the increase in the salaries and benefits of the sales and customer service staff and the increase in travel expenses during the Period 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. During the Period under Review, the administrative expenses of the Group amounted to approximately RMB54,207,000, and remained stable compared to RMB54,660,000 recorded in the corresponding period last year.

Other Expenses

Other expenses primarily include exchange losses, losses on the disposal of fixed assets and others. During the Period under Review, other expenses of the Group amounted to approximately RMB7,545,000, representing an increase of approximately RMB3,239,000 as compared with the same period of last year, mainly due to the increase of approximately RMB1,719,000 in exchange losses during the Period under Review and the compensation expenses of RMB2,048,000 for an economic lawsuit.

Impairment Gains on Financial Assets

During the Period under Review, the impairment gains on financial assets of the Group amounted to approximately RMB1,326,000, as compared to RMB571,000 during the same period of last year, mainly due to the reversal of impairment provision as a result of the decrease in the base of accounts receivable and notes.

Finance Costs

During the Period under Review, finance costs of the Group were approximately RMB606,000 (for the same period of last year: RMB70,000), which was due to the increase in interest arising from the discounting of bank bills during the Period under Review.

Income Tax Expenses

During the Period under Review, income tax expenses of the Group decreased by approximately 26.3% as compared with the same period of last year to approximately RMB104,781,000, which was mainly due to the decrease in revenue and profit before tax.

Profit for the Period

As a result of the aforementioned factors, the Group's profit for the six months ended 30 September 2023 amounted to approximately RMB221,258,000, representing a decrease of approximately 26.4%, or approximately RMB79,435,000 as compared with 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 towards its funding and treasury policies. As at 30 September 2023, the total cash and bank balances of the Group amounted to approximately RMB1,071,934,000 (31 March 2023: approximately RMB977,572,000). Such increase was mainly due to the increase in net operating cash inflows during the Period under Review. (The net operating cash inflows of the Company for the six months ended 30 September 2023 were approximately RMB277,677,000, compared to the approximately RMB163,679,000 recorded for the same period of last year.)

As at 30 September 2023, the Group's cash and bank balances were mainly held in Renminbi, and part of them were held in Hong Kong dollars and Japanese yen ("**JPY**").

As at 30 September 2023, the Group recorded net current assets of approximately RMB2,055,515,000 (as at 31 March 2023: approximately RMB1,998,001,000) and its current ratio, calculated by dividing total current assets by total current liabilities, was approximately 4.1 times (as at 31 March 2023: approximately 3.3 times). Capital expenditures for the six months ended 30 September 2023 amounted to approximately RMB54,704,000, which was mainly used to fund the addition of factory buildings and mechanical equipment.

As at 30 September 2023, the Group had no outstanding bank loans and other borrowings (31 March 2023: Nil)

Capital Commitments

As at 30 September 2023, the Group had capital commitments contracted but not provided for amounting to approximately RMB56,272,000 (as at 31 March 2023: approximately RMB112,602,000).

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 RMB54,704,000 during the Period under Review, including approximately RMB50,218,000 in buildings, approximately RMB3,418,000 in machinery and equipment and approximately RMB1,068,000 in other investments.

To satisfy the high demand for CNC machine tools in the PRC market, the Group has planned ahead for the production capacity of the Company in the future. In October 2021, a new company Precision Nakatsu (China) Corporation was incorporated in Pinghu with a registered capital of US$35,000,000. In this investment project, a land parcel of 50,000 square metres and plant and ancillary buildings of 25,800 square metres have been acquired. As at 30 September 2023, the amount of approximately RMB74,376,000 has been recognized as fixed assets, including approximately RMB40,706,000 for factory buildings, approximately RMB30,247,000 for land use rights and approximately RMB3,423,000 for others. 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. In addition, a new plant building for the project, with an investment of approximately RMB130,000,000, began construction during the Period under Review, with approximately RMB46,071,000 having been used so far.

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 2023, the Group had no material contingent liabilities.

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

Employees and Remuneration Policy

As at 30 September 2023, the Group employed 2,177 employees (31 March 2023: 2,238), of whom 11 (31 March 2023: 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 RMB182,115,000 in aggregate (including directors' emoluments) (for the six months ended 30 September 2022: RMB186,813,000), accounting for approximately 12.19% of the 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 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 individual employee's performance, qualifications and experience.

OUTLOOK

The lingering complicated global environment, coupled with the confrontations between countries brought about by geopolitical landscape have brought on a world wide impact. Whether and to what extent new investments in the domestic manufacturing industry will be adversely affected remains to be kept under careful observation over time in future. On the other hand, the PRC government has made clear its positive viewpoint in promoting the development of the private economy, and has rolled out a number of economic stimulus policies, continuously giving priorities to high-end manufacturing. Favorable policies for industrial machine tools are frequently introduced to support the medium and long-term development of CNC machine tools industry, and the positive aspects of its effectiveness will take time to be manifested.

Currently, the demand for CNC machine tools in Mainland China is still lower than that of the same period of last year. However, feedback from downstream customers indicates that it may bottom out in the third quarter of this year, the demand for which may start to pick up within the year or the first half of next year. In terms of each downstream segment, the new energy automobile industry has experienced a contraction in demand for capital expenditure this year following a large-scale capacity expansion over the past two years. However, the industrial automation, healthcare industry and mold industry have outperformed year-on-year.

In the face of various changes in the market, the Group will pay close attention to industry development trends, through launch of new products and optimise its product portfolio in a flexible manner so as to meet customer needs. Meanwhile, the Company will strive to maintain its competitive edge and embraces market opportunities by reducing costs and enhancing the cost effectiveness of its products.

The Group firmly believes that the domestic market of medium – and high-end CNC machine tools is still in the stage of expansion; China has the world's largest manufacturing industry, and the transformation of the industry to high value-added technology-intensive manufacturing, or even to intelligent manufacturing, is still the main trend for the development of China's manufacturing industry while potential demands for CNC machine tools remain strong.

The Group will also continue to optimise its manufacturing processes and implement measures for energy saving and emission reduction in the course of our daily business, so as to enhance the efficiency of resource utilisation and promote the practice of sustainable development, thereby bringing positive contributions to the society and the environment.

In conclusion, despite the challenges in the market, the Group has strong confidence in the development of the CNC machine tools market in China, and will continue to pay close attention to the market changes and adjust its strategies in a flexible manner to capture opportunities, and endeavour to enhance the competitiveness of its products and increase its market share, so as to lay a solid foundation for long-term growth. The Group will also maintain a stable dividend policy with continuous efforts in order to generate investment return for our shareholders.

EVENTS AFTER THE END OF THE PERIOD UNDER REVIEW

Save as disclosed in this announcement, the Board is not aware of any material events relating to the business or financial performance of the Group after the Period under Review and up to the date of this announcement.

NO MATERIAL CHANGE

Save as disclosed in this announcement, during the six months ended 30 September 2023, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 March 2023.

INTERIM DIVIDENDS

The Board declared the payment of an interim dividend of HK$0.4 per share for the six months ended 30 September 2023 (2022: HK$0.4) to the shareholders of the Company whose names appear on the register of members of the Company as at Tuesday, 12 December 2023, the payment of which is expected to be made on Friday, 12 January 2024.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the period from Friday, 8 December 2023 to Tuesday, 12 December 2023 (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 Thursday, 7 December 2023.

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 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 Period 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 Period under Review, 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 the 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 separated 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 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 2023 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, 10 November 2023

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. Kenji Yoneyama; and the independent non-executive directors are Dr. Satoshi Iwabuchi, Dr. Huang Ping and Mr. Tam Kin Bor.