PRECISION TSUGAMI CHINA

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

2017-2018
Annual Report

PRECISION TSUGAMI CHINA

Precision Tsugami (China) Corporation Limited is a subsidiary established by Tsugami Corporation 株式會社ツガミ ("Tsugami Japan" or "Controlling Shareholder"), a renowned Japanese CNC high precision machine tool manufacturer, for its Chinese undertakings, and has grown into the largest foreign-branded CNC machine tool manufacturer* in the Chinese machines tools market through 15 years of rapid development since the business commencement in 2003.

The Company manufactures and sells high-end CNC machine tools including precision lathes, precision machining centres and precision grinding machines under the TSUGAMI brand. With its customer orientation, and high speed, high precision and high rigidity as its quality targets, the Company has been widely recognized by the industries including automobile parts and components, IT communications and electronics and industrial automation. The Company's products are mainly for the Chinese market, and are also sold, with or without customisations, to Japan, Europe, the United States, Southeast Asia and other regions through its overseas sales channels Tsugami Japan.

* According to the industry overview report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., for inclusion in the prospectus of the Company dated 12 September 2017.

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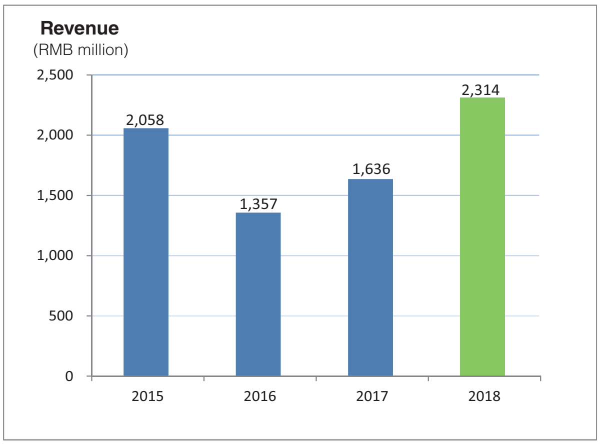
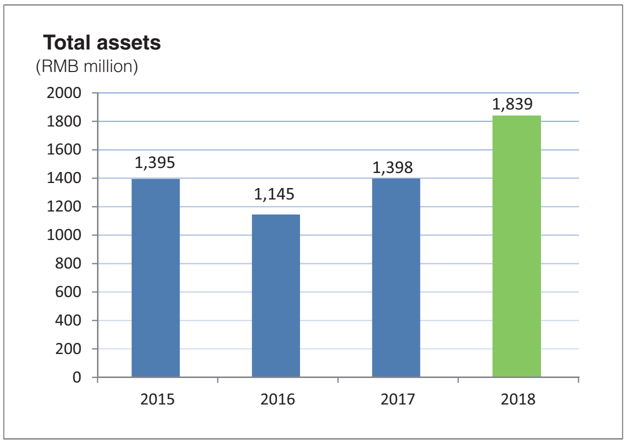
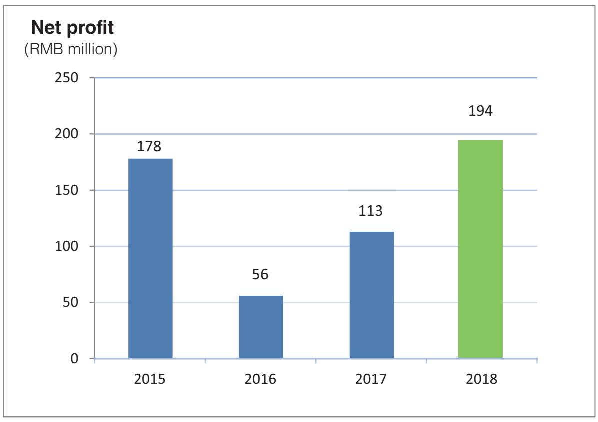
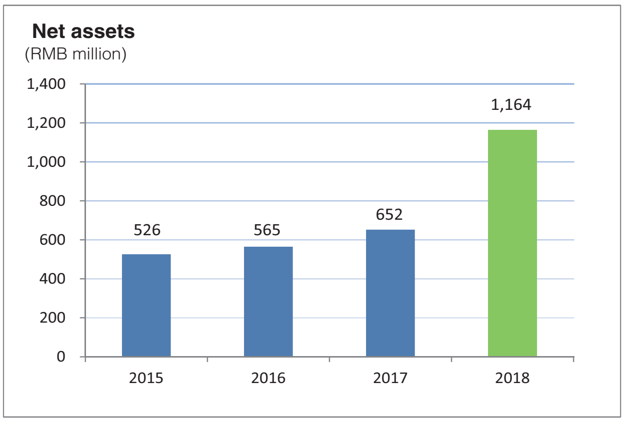
RESULTS HIGHLIGHTS









CORPORATE INFORMATION

Executive Directors
Dr. Tang Donglei *(Chief Executive Officer)*
Mr. Yoshimasa Hashimoto

Non-executive Directors
Mr. Takao Nishijima *(Chairman)*
Ms. Mami Matsushita
Mr. Tatsushi Hidano *(Redesignated from executive Director with effect from 1 January 2018)*
Dr. Ng Lai Man Carmen

Independent Non-executive Directors
Dr. Huang Ping
Dr. Eiichi Koda
Mr. Tam Kin Bor

Audit Committee
Mr. Tam Kin Bor *(Chairman)*
Ms. Mami Matsushita
Dr. Huang Ping

Nomination Committee
Mr. Takao Nishijima *(Chairman)*
Dr. Eiichi Koda
Mr. Tam Kin Bor

Remuneration Committee
Dr. Huang Ping *(Chairman)*
Dr. Tang Donglei
Mr. Tam Kin Bor

Company Secretary
Ms. Wong Wai Yee Ella

Registered Office
PO Box 309, Ugland House
Grand Cayman KY 1-1104
Cayman Islands

Auditor
Ernst & Young
Certified Public Accountants

Legal Advisers as to Hong Kong Laws
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Principal Place of Business
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Principal Share Registrar
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PO Box 1093, Boundary Hall
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Hong Kong Branch Share Registrar
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Hong Kong

Compliance Adviser
Halcyon Capital Limited
11/F, 8 Wyndham Street
Central
Hong Kong

Principal Bankers
Hong Kong
Bank of China
The Bank of Tokyo-Mitsubishi UFJ, Ltd. Hong Kong Branch
Sumitomo Mitsui Banking Corporation Hong Kong Branch

PRC
Sumitomo Mitsui Banking Corporation (China) Limited
Bank Of Tokyo-Mitsubishi UFJ (China), Ltd.
Mizuho Bank (China), Ltd.
China Construction Bank Corporation

Stock Code
1651

Company Website
www.tsugami.com.cn

CHAIRMAN'S STATEMENT

Precision Tsugami (China) Corporation Limited (the "**Company**", together with its subsidiaries, collectively, the "**Group**") presents its annual results report for the year ended 31 March 2018 (the "**Fiscal Year of 2018**", the "**Year under Review**" or the "**Year**") to the shareholders of the Company (the "**Shareholders**"). During the Year, the Group duly captured the opportunity from the prosperous demand of the manufacturing industry in China and other regions of the world for manufacturing equipment and achieved significant growth in sales revenue and profit. The sales revenue amounted to approximately RMB2,314,215,000, representing an increase of approximately 41.4% as compared to last year; the gross profit amounted to approximately RMB472,116,000, representing an increase of approximately 62.1% as compared to last year; the net profit amounted to approximately RMB194,090,000, representing an increase of approximately 72.4% as compared to last year. All the three business indicators mentioned above illustrate how the Group has achieved the best results since the inception of the Group. In addition, the basic earnings per share increased by approximately 50% to approximately RMB0.57 per share. In the first fiscal year after listing, the Group achieved good results.

The board of directors (the "**Board**") proposes to pay a final dividend of HK$0.16 per share. The Group is in a stage of rapid growth. In order to obtain a larger market share, it will actively expand its scale and further strengthen its competitiveness while striving to achieve stable dividends for the Shareholders.

The Group has always been upholding the tradition of "high precision, high speed and high rigidity" of the TSUGAMI brand. With the globally leading CNC high precision machine tool technology of Tsugami Japan as the backdrop, the Group is customer-oriented and strives hard to provide customers with cost-effective products, contributing to the society.

The Group's main business is professional customization, development, production and sales of various CNC high precision machine tools such as precision lathes, precision machining centres and precision grinding machines. The products of the Group are mainly used in the industries such as automobile parts and components, IT electronic parts including mobile phones and communication facilities, automation, medical instruments and construction machinery. They are mainly sold in the Chinese mainland and Taiwan market and also exported to Japan, South Korea, Europe, the United States and other countries through overseas sales channel Tsugami Japan. The Group provides CNC high precision machine tools to the supply chains of the renowned auto manufacturers, home appliance manufacturers and smart phone manufacturers in the world.

In recent years, the Chinese manufacturing industry has transformed from a quantitative growth in product capacity to a qualitative growth. From labor intensive to technology intensive, transformation and upgrading have gradually become a mainstream, and the requirements for automation, numerical control and precision of manufacturing equipment are getting higher and higher. The demand for high-end manufacturing equipment continues to grow. The characteristics of the Group's CNC high precision machine tools are highly consistent with the direction of market development and the Group has entered a fast development track.

During the Year, in the Chinese market, the downstream industries of the Group's products all showed strong demand, and sales in the Chinese market increased by 58.1%. The automobile parts and components manufacturing industry continued to eliminate old equipment, introduce more advanced equipment, and improve the advancement and quality of products to meet the more stringent environmental protection requirements of the government and the higher performance and quality requirements of end consumers. The IT, smart phone and home appliance industries impose increasingly higher requirements for the precision of parts. The Company's main product, high precision lathes, provides solutions for such industries. The pneumatic and hydraulic components industries that provide parts for industrial automation are in line with the direction of transformation and upgrading of the manufacturing industry and rapid development has been seen in recent years, and the demand for processing equipment continues to increase.

Stimulated by the prosperity and recovery of the overseas manufacturing industry, sales in overseas market also increased by approximately 12.3% during the year.

During the Year, the Group launched new models such as the high-speed machining centre VL3, the M08JL5-II with processing capacity of long workpieces of 500mm and high-end turning mill composite machines TMA8JC and B038M. The launch of new models provides higher-end products to overseas markets and prepare the Group for the further upgrading of the Chinese manufacturing industry while meeting the demand of the Chinese market.

Facing the strong market demand, the Group fully leveraged on its capabilities of procurement and in-house manufacturing. Particularly when there were shortages or longer lead times in some key parts procured externally since October 2017, the Group actively coordinated with major suppliers and expanded new sources of supply, minimizing the negative impact, which enabled us to maintain the competitive edge in short lead times. Led by experienced management of the Group and with the active participation of all staff, the Group has made various efforts in rationalising the inventory and enhancing the efficiency of the production process. It is also an important reason for the increase in the gross profit margin in the Fiscal Year of 2018.

During the Year, the Group continued to strengthen the construction of business outlets, and has established flagship showrooms in Wuhan and Tianjin and new centres in Chengdu, Foshan, Changsha, Liuzhou, Suzhou and Shijiazhuang. The number of sales agency outlets also increased to approximately 230.

In light of the great potential for future growth in the CNC high precision machine tool industry in China, we are confident about the prospect for the development of the Company in the future. For the coming year, the Group will continue to put more efforts in the market exploration and promotion for its key products, launch more new products and upgrade the existing models, and further expand its sales and distribution network as well as the customer base in China in order to increase its sales volume. Also, the debut of two new plants of the production plant four will also solve the current problems in relation to production capacities. The Group will continue to strive to enhance operation, production and management of the Group in order to improve the operational efficiency.

On behalf of the Board, I would like to express my appreciation to all staff and the management of the Group for their hard work and contribution to the outstanding results achieved in the Fiscal Year of 2018. At the same time, the Group would like to extend its sincere gratitude to the Shareholders for their concern and trust after the listing of the Company, and thanks to the customers and business partners of the Group for their long-term support and contribution to the Group.

Mr. Takao Nishijima
Chairman
Hong Kong, 27 June 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 March 2018, manufacturing industries in China, including automotive industry and general machining industry, continued to show strong demand for machine tools, and foreign markets also remained sound. Under the influence of such macro circumstance, the Group sustained great momentum in sales performance since the second half of last financial year, with each of its major models recording good sales results. The sales amounted to approximately RMB2,314,215,000, representing an increase of approximately 41.4% as compared to last year.

Facing the strong market demand, in addition to the efforts of the Group's strong sales force, the Group also fully leveraged on its capabilities of procurement and in-house manufacturing to meet customer needs within short delivery time. Such capabilities are also vitally important for the Group to secure sales orders. Precision lathes, being the main products of the Group, received wider recognition in the market as an industry leader and achieved sales of approximately RMB1,911,640,000 for the year ended 31 March 2018, representing an increase of 42.9% as compared to last year.

The increase in sales and production volumes led to economies of scale, which, together with the improvement in operating efficiency, fostered a gross profit of approximately RMB472,116,000 for the year ended 31 March 2018, representing an increase of approximately 62.1% as compared to last year, while the gross profit margin of the Group also increased from approximately 17.8% to approximately 20.4% during the same year.

Also, due to the increase in sales volume, the net profit of the Group amounted to approximately RMB194,090,000, representing an increase of approximately 72.4% as compared to last year.

Sales, gross profit and net profit of the Group were the highest since the inception of the Group.

Basic earnings per share during the Year under Review amounted to approximately RMB0.57, representing an increase of approximately 50% as compared to last year.

FINANCIAL REVIEW

Revenue

For the year ended 31 March 2018, total revenue increased by approximately 41.4%, or approximately RMB677,934,000, from approximately RMB1,636,281,000 for last year to approximately RMB2,314,215,000. Such increase was primarily the results of (i) precision lathes, as leading products in the market, received broader recognition from customers and achieved sales of approximately RMB1,911,640,000, representing an increase of approximately 42.9%; and (ii) other models, such as precision machining centres and others (primarily including accessory parts and components), saw considerable sale increases and achieved sales of approximately RMB170,858,000 and approximately RMB112,927,000, representing increases of approximately 41.5% and approximately 66.3% respectively, as compared to last year.

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

	For the year ended 31 March 2018	**Proportion (%)**	For the year ended 31 March 2017	Proportion (%)	**Year-on-year increase (%)**
Precision lathes	**1,911,640**	**82.6%**	1,337,990	81.7%	**42.9%**
Precision machining centres	**170,858**	**7.4%**	120,755	7.4%	**41.5%**
Precision grinding machines	**106,672**	**4.6%**	98,453	6.0%	**8.3%**
Precision thread and form rolling machines	**12,118**	**0.5%**	11,159	0.7%	**8.6%**
Others	**112,927**	**4.9%**	67,924	4.2%	**66.3%**
Total	**2,314,215**	**100%**	1,636,281	100%	**41.4%**

Gross Profit and Gross Profit Margin

For the year ended 31 March 2018, gross profit increased by approximately 62.1% to approximately RMB472,116,000 as compared to last year, mainly due to the increase in sales volume as a result of the Group's continued expansion of new regions and market shares of new customer and new usage. The Group's overall gross profit margin also increased from approximately 17.8% for the year ended 31 March 2017 to approximately 20.4% for the year ended 31 March 2018. Such increase was mainly attributable to economies of scale resulting from the increase in sales volume during the Year under Review.

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, gain on foreign exchange and others. For the year ended 31 March 2018, other income and gains increased by approximately 113.6% to approximately RMB8,453,000 primarily due to the increases in bank interest income by approximately RMB1,072,000 and government grants by approximately RMB2,192,000.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of staff salaries and benefits, transportation and insurance costs, warranty expenses, travelling expenses, office utility expenses, marketing and advertisement expenses and depreciation costs. During the Year under Review, selling and distribution expenses of the Group increased by approximately 27.9% as compared to last year to approximately RMB98,303,000, representing approximately 4.2% of the Group's revenue for the Year under Review. Such increase was mainly attributable to the increase in selling and distribution expenses along with the sharp rise in revenue during the Year under Review.

Administrative Expenses

Administrative expenses primarily consist of salaries and benefits for management, administrative and financial personnel, including the share-based payment by virtue of the Pre-IPO Share Option, 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, other taxes and levies, and listing expenses.

During the Year under Review, administrative expenses increased by approximately 71.7% as compared to last year to approximately RMB71,293,000, mainly due to a large amount of listing expenses and an increase of staff salaries and benefits being recorded during the Year under Review.

Other Expenses

Other expenses primarily include exchange losses, losses on the disposal of fixed assets and others. During the Year under Review, other expenses increased by approximately RMB25,999,000 as compared to last year to approximately RMB29,794,000, mainly due to the increase in foreign exchange losses arising from the larger fluctuations of the exchange rate of HK dollars against Renminbi and the increase in losses on the disposal of fixed assets (especially buildings) of the production plant four of the Company.

Finance Costs

During the Year under Review, finance costs decreased by approximately 19.9% as compared to last year to approximately RMB10,466,000, mainly due to the decrease in interest on bank borrowings of the Group of approximately RMB5,773,000 as a result of the repayment of bank borrowings with proceeds from the initial public offering in the third quarter of 2017, in spite of the increase in interest on discounting bills of approximately RMB3,179,000.

Income Tax Expenses

During the Year under Review, income tax expenses increased by approximately 61.8% as compared to last year to approximately RMB76,623,000, mainly due to the significant increase in revenue and profit before tax.

Profit for the Year

As a result of the factors described above, the Group's profit for the year increased by approximately 72.4% from approximately RMB112,566,000 for the year ended 31 March 2017 to approximately RMB194,090,000 for the year ended 31 March 2018.

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 2018, total cash and cash equivalents of the Group amounted to approximately RMB321,760,000 (as at 31 March 2017: approximately RMB123,903,000). Such increase was mainly due to the receipt of net proceeds of approximately HK$327,700,000 from the listing of the Company's shares (the "**Shares**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (including the additional proceeds from the exercise of the over-allotment option), proceeds from the exercise of the pre-IPO share option (the "**Share Option**") of approximately HK$11,805,000 and the increase in net cash flows from operating activities.

As at 31 March 2018, the Group's cash and cash equivalents were mainly held in Renminbi and Hong Kong dollars and part of them were held in Japanese yen.

As at 31 March 2018, the Group recorded net current assets of approximately RMB799,001,000 (as at 31 March 2017: approximately RMB270,145,000). Capital expenditures for the year ended 31 March 2018 amounted to approximately RMB41,443,000, which was mainly utilised to finance the plant construction, the addition of processing equipment and purchase of software.

Bank loans, which are used for our general working capital, purchases of production plant machinery and equipment, purchases of parts and components and payment of dividends, are denominated in Renminbi. As at 31 March 2018, the Group had no outstanding bank loans (31 March 2017: approximately RMB257,031,000) and no discounted bills with recourse (31 March 2017: approximately RMB17,498,000). As at 31 March 2018, the Group had no bank loans and other borrowings and hence no applicable gearing ratio, calculated by dividing total bank loans and other borrowings by total equity (31 March 2017: approximately 42.1%).

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

	For the year ended 31 March	
	2018	2017
Average inventory turnover days *(Note 1)*	**97**	134
Average turnover days of trade and bills receivables *(Note 2)*	**79**	56
Average turnover days of trade and bills payables *(Note 3)*	**81**	65

	As at 31 March	
	2018	2017
Current ratio *(Note 4)*	**2.2**	1.4

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 bills receivables are calculated based on the average balances of trade and bills 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 bills payables are calculated based on the average balances of trade and bills 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 2018 were approximately 97 days, representing a decrease of approximately 37 days as compared to last year, mainly due to the fact that the sales for the year ended 31 March 2018 substantially increased by approximately 41.4% while there was no remarkable increase in the inventories.

Average turnover days of trade and Bills Receivables

The Group's average turnover days of trade and bills receivables for the year ended 31 March 2018 were approximately 79 days, representing an increase of approximately 23 days as compared to last year, mainly due to the substantial increase in sales for the year ended 31 March 2018 and the decrease in discounting of bank acceptance bills received from customers in light of the abundant liquidity following the listing of the Company. The relevant trade receivables remained in the normal credit period.

Average turnover days of trade and bills payables

The Group's average turnover days of trade and bills payables for the year ended 31 March 2018 were approximately 81 days, representing an increase of approximately 16 days as compared to last year, mainly due to the increase in output and purchase of parts and components arising from the substantial increase in sales for the year ended 31 March 2018, which led to a corresponding increase in the balance of trade and bills payables.

Current Ratio

As at 31 March 2018, the Group's current ratio was approximately 2.2 times, while it was approximately 1.4 times as at 31 March 2017, mainly due to the increase in net current assets of the Group as a result of the increases in cash and cash equivalents and trade and bills receivables and the decrease in bank loans and other borrowings.

Contingent Liabilities

As at 31 March 2018, the Group had no material contingent liabilities.

Currency Risk and Management

The sales and procurement by the Group are mainly denominated in Renminbi and JPY. In order to reduce exchange exposure, the Group has started and gradually settled part of its sales to the Controlling Shareholder and its subsidiaries (other than the Group) and part of our procurement from the Controlling Shareholder in Renminbi instead of JPY.

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 rates and may consider hedging significant foreign currency exposure should the need arise.

Use of Net Proceeds from Listing

The Company has completed the initial public offering (including the issuance of over-allotment shares) and received net proceeds of approximately HK$327.7 million. The net proceeds were and will be utilized in the manner consistent with that stated in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 12 September 2017 (the "**Prospectus**"). From the listing date of the Company and up to 31 March 2018 (the "**Reporting Period**"), the net proceeds from the initial public offering (including the issuance of over-allotment shares) have been utilized as shown in the table below:

	Net proceeds from the initial public offering (including the issuance of over-allotment shares) HK$ million	Utilized amount during the Reporting Period HK$ million	Unutilized amount as at 31 March 2018 HK$ million	Planned amount to be utilized during the year ended 31 March 2019 HK$ million	Planned amount to be utilized during the year ended 31 March 2020 HK$ million
Rebuilding and renovating part of the Group's production plant four	42.4	25.6	16.8	16.8	0
Purchasing and replacing production machinery and equipment for the Group's Pinghu production plants	17.4	12.8	4.6	3	1.6
Expanding the Group's sales network and increasing the Group's market penetration in the PRC	1.7	0.9	0.8	0.5	0.3
Repaying the Group's bank loans	266.2	266.2	0	0	0

As stated in the section headed "Financial Information – Capital expenditures – Planned capital expenditures" in the Prospectus, the Group planned to utilize (i) approximately RMB19.8 million (equivalent to approximately HK$22.4 million) on rebuilding and renovating part of the Group's production plant four and purchasing; and (ii) approximately RMB7.3 million (equivalent to approximately HK$8.2 million) on replacing production machinery and equipment for the Group's Pinghu production plants during the Reporting Period.

In order to enhance the production capacity of the Group as soon as possible, the actual cost for rebuilding and renovating part of the Group's production plant four exceeded the estimated cost during the Reporting Period. The construction work at the Group's production plant four is expected to be fully completed in the year ending 31 March 2019 while any cost exceeding the net proceeds earmarked for such construction work will be made up by the internal resources of the Group. In order to improve the Group's processing capabilities for the parts and components, investment progress on production machinery and equipment of the Group's Pinghu production plants is ahead of schedule.

The Directors consider that there was no material change and delay in the use of the proceeds of the Group during the Reporting Period.

The unutilized net proceeds of the Group have been placed for the time being as interest-bearing deposits with licensed banks in the PRC and Hong Kong.

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

On 21 March 2018 (after trading hours), Precision Tsugami (China) Corporation* (津上精密機床（浙江）有限公司), a wholly-owned subsidiary of the Company, and the Administrative Commission of Anhui Bowang High-tech Industrial Development Zone* (安徽博望高新技術產業開發區管理委員會) entered into an investment agreement in relation to the proposed construction of a new production plant in Bowang District, Ma'anshan, Anhui Province, the PRC (the "**Anhui Investment**") by the Company through a wholly-owned subsidiary to be established at Bowang District, Ma'anshan, Anhui Province, the PRC (such wholly-owned subsidiary, Precision Tsugami (Anhui) Corporation* (安徽津上精密機床有限公司), was established on 18 April 2018). As at the date of this report, the total investment amount from the Anhui Investment is expected be approximately RMB200 million. For details, please refer to the announcement published by the Company on 22 March 2018.

Save for the expansion plan as disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus and the Anhui Investment, 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.

Charge on Assets

As at 31 March 2018, apart from the bank deposits of approximately RMB12,758,000 (as at 31 March 2017: approximately RMB6,930,000) pledged by the Group to banks in relation to the issue of bills payable, the Group had no other assets charged to any financial institutions.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the Prospectus and this annual report, the Group did not have any future plans for material investments or capital assets as at 31 March 2018.

Employees and Remuneration Policy

As at 31 March 2018, the Group employed 1,753 employees (31 March 2017: 1,454), of whom 20 were transferred employees from the Controlling Shareholder. The Group's staff costs (including salaries, bonuses, social insurance, provident funds and share incentive plan) amounted to RMB172,771,000 (2017: RMB131,549,000) in aggregate, representing approximately 7.5% 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 employee loyalty. The Group's employees are subject to regular job performance reviews bearing on their promotion prospects and compensation. Remuneration is determined with reference to market norms and individual employee's performance, qualifications and experience. As disclosed in the Prospectus, the Company adopted a pre-IPO share option scheme on 14 March 2014 to award and motivate its employees who had made contributions to the Group.

* *for identification purpose only*

OUTLOOK

The management of the Group predicts that the overall CNC high precision machine tool market will maintain good momentum in the coming year. The Group will strive to explore its potential in order to enhance its production capacities. Given the insufficient supply of key parts and components by certain supplier since October 2017, the Group has been actively sourcing new suppliers while seeking close cooperation with the said supplier with the aim of minimizing impacts on production.

As the macro economy and industrial output value of China maintain sustained growth, the management of the Group believes that the CNC high precision machine tool industry in China will be further strengthened. The rapid development of industries that apply CNC high precision machine tools in China including the automobile industry, consumer electronic product industry and industrial automation industry, will directly promote the sales volume and expansion of the CNC high precision machine tool industry in China. In addition, the Chinese government continues to adopt policies that actively encourage the development of the manufacturing technology of machine tools in recent years in order to strengthen the competitiveness of machine tools made in China, which will create more business opportunities for the CNC high precision machine tool industry in China.

In light of the great potential for future growth in the CNC high precision machine tool industry in China, the management of the Group is confident about the prospect for the development of the Group in the future. Going forward, the Group will seize market opportunities more actively, explore new application fields, and maintain and improve its market position in the CNC high precision machine tool industry in China continuously. The Group will continue to put more efforts in the market exploration and promotion for the key products, make more investments in new products and upgrade the existing models, and further expand its sales and distribution network as well as the customer base in China in order to increase its sales volume.

In order to meet the needs of future development, the production plant four of the Group is undergoing renovation with two new plants under construction, and the new production plant in Anhui Province is also about to commence construction. The Group will also maintain stable relationship with quality suppliers to achieve mass production of the CNC high precision machine tool so as to offer more competitive pricing.

The Group will continue to adhere to the customer-oriented principle in sales activities and provide more effective customer services with better quality. It will increase the number of sales and services centres in current traditional areas so as to achieve a 2-hour after-sales service circle. In addition, the Group will expand its sales network from traditional areas to the whole nation based on its existing solid foundation. It will explore other areas outside of Guangdong, Zhejiang, Jiangsu and Shanghai to set up new sales and services centres. The Group established flagship showrooms in Wuhan and Tianjin and new centres in Chengdu, Foshan, Changsha, Liuzhou, Suzhou and Shijiazhuang during the Year under Review. The Group currently plans to establish new centres in Jinan, Zhengzhou, Nanchang and other cities in 2018.

The Group will further improve its operational and financial performance in order to strengthen its leading position in the industry and create satisfactory returns for the Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Dr. Tang Donglei (**唐東雷**) ("**Dr. Tang**"), aged 55, is the Chief Executive Officer of the Company and was appointed as the executive Director and a member of remuneration committee of the Company on 13 May 2015 and 2 February 2018, respectively. He is primarily responsible for overall management, strategic planning and business development of our Group. Dr. Tang is a director of Precision Tsugami (Hong Kong) Limited, a direct wholly-owned subsidiary of the Company. Dr. Tang is the vice chairman, president and a director of Precision Tsugami (China) Corporation ("**PTC**"), our operating subsidiary in the PRC, where he is primarily responsible for the strategic planning and overall operation. Dr. Tang is also the chairman and legal representative of Shinagawa Precision Machinery (Zhejiang) Co., Ltd. and Tsugami China Consultants Co., Limited (both of them are the indirect wholly-owned subsidiaries of the Company), where he is primarily responsible for the strategic planning. On 18 April 2018, Dr. Tang was appointed as the chairman and legal representative of Precision Tsugami (Anhui) Corporation. From July 1992 to August 2002, Dr. Tang served in Tokyo Seimitsu Co., LTD., a company listed on the Tokyo Stock Exchange (TYO: 7729) and primarily engaged in the manufacture and sales of semiconductor production equipment and measuring instruments, Tokyo Seimitsu Co., LTD. is also one of the cornerstone investors of the Company. From June 2017 to June 2018, Dr. Tang has been serving as an external director of Tokyo Seimitsu Co., LTD. From September 2002 to October 2005, Dr. Tang served as the managing director of MJC Microelectronics Shanghai Co., Ltd (旺傑芯微電子（上海）有限公司), a company primarily engaged in the design, manufacture of probe card for semiconductor testing, test instrument and electronic special equipment and sales of products, where he was responsible for the overall operation of the company. Dr. Tang joined the Group in November 2005 and was appointed as the director and president of PTC in November 2005 and November 2006, respectively, where he was responsible for the strategic planning and overall operation. From June 2010 to 13 February 2017, Dr. Tang held various positions in Tsugami Japan (a company listed on the Tokyo Stock Exchange (TYO: 6101)) and last served as a director and adviser and was primarily responsible for the overall operation of the company. Dr. Tang was appointed as a director of Tsugami Japan and mainly managed the business arrangement between Tsugami Japan and its subsidiaries (except the Group) and the Group on 20 June 2018.

Dr. Tang received his bachelor's degree in precision machinery and instruments from Harbin Institute of Technology (哈爾濱工業大學) in July 1984 and his master's degree in precision engineering from Shinshu University (信州大學) in Japan in March 1988. Dr. Tang received his doctor of engineering degree, majoring in precision machinery systems, from Tokyo Institute of Technology (東京工業大學) in January 1994.

Mr. Yoshimasa Hashimoto (**橋本剛昌**) ("**Mr. Hashimoto**"), aged 61, was appointed as the executive Director of the Company on 13 May 2015 and acted as a member of remuneration committee from 4 September 2017 to 2 February 2018. He joined our Group in April 2015 and is primarily responsible for accounting, financial management and investor relations of our Group. Prior to joining our Group, Mr. Hashimoto held various positions in Dai-Ichi Kangyo Bank, Ltd. from April 1979 to March 2001. From April 2001 to March 2011, Mr. Hashimoto served various positions (including the head of financial services department (formerly known as treasury department)) in Nippon Boehringer Ingelheim Co., Ltd., which primarily engaged in production and sales of prescription medicine in Japan. From April 2011 to July 2014, Mr. Hashimoto served as the head of infrastructure in Boehringer Ingelheim Japan Inc. He was primarily responsible for treasury management of Boehringer Ingelheim Japan Group Companies at financial services department and facility management in infrastructure during the tenures. From October 2014 to September 2017, Mr. Hashimoto was the advisor of Tsugami Japan (a company listed on the Tokyo Stock Exchange (TYO: 6101)) and was mainly responsible for managing investor relations of Tsugami Japan and our Group, and for providing assistances in relation to the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Hashimoto received his bachelor's degree in commerce and management, majoring in accounting from Hitotsubashi University (一橋大學) in Japan in March 1979 and his master degree of business administration from New York University in May 1989.

Non-executive Directors

Mr. Takao Nishijima (西嶋尚生) ("**Mr. Nishijima**"), aged 70, is the chairman of the Company and the nomination committee. Mr. Nishijima joined the Group since September 2003 and was appointed as the Director on 2 July 2013 and was redesignated as the non-executive Director on 13 May 2015. Mr. Nishijima is also the chairman of the board of directors and the legal representative of PTC. Mr. Nishijima was the general manager of the sales development division of Tsugami Japan (a company listed on the Tokyo Stock Exchange (TYO: 6101)) and the managing director of Tsugami Kohan Co., Ltd. from May 1999 to June 2000. He acted as the director and general manager of the sales development division, control headquarters of Tsugami Japan from June 2000 to April 2003. Mr. Nishijima has been serving as the representative director, chairman and chief executive director of Tsugami Japan since April 2003, and is primarily responsible for advising the overall operation.

Mr. Nishijima graduated with a bachelor degree of economics from the faculty of economics of the University of Tokyo (東京大學) in April 1970.

Ms. Mami Matsushita (松下真実) ("**Ms. Matsushita**"), aged 54, was appointed as our non-executive Director and a member of audit committee on 13 May 2015 and 4 September 2017, respectively. She is primarily responsible for advising the overseas business. Ms. Matsushita joined the Group as a supervisor in January 2010 and was appointed as the director of PTC in October 2010, where she was primarily responsible for advising the overall management relating to export or import matters. Ms. Matsushita is also a supervisor of Shinagawa Precision Machinery (Zhejiang) Co., Ltd. and a director of Tsugami China Consultants Co., Limited. Ms. Matsushita is a senior executive officer and general manager of overseas division of Tsugami Japan (a company listed on the Tokyo Stock Exchange (TYO: 6101)). From April 2010, she served as the president of Tsugami Europe GmbH and a director of Tsugami Korea Co., Ltd., respectively, both of which are subsidiaries of Tsugami Japan. From June 2013, Ms. Matsushita served as a director of Tsugami Universal Pte. Ltd. and Tsugami Precision Engineering India Private Limited, respectively, both of which are subsidiaries of Tsugami Japan. From June 2002 to March 2010, Ms. Matsushita was employed by Tokyo Seimitsu Co., LTD. (株式會社東京精密), the shares of which were listed on the Tokyo Stock Exchange.

Ms. Matsushita obtained her bachelor's degree in arts and master's degree in arts from Meiji University (明治大學) in Japan in March 1988 and March 1990, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tatsushi Hidano (飛田野達史) ("**Mr. Hidano**"), aged 51, was appointed as the executive Director of the Company on 13 May 2015, and was redesignated as the non-executive Director of the Company on 1 January 2018. Mr. Hidano joined Tsugami Japan (a company listed on the Tokyo Stock Exchange (TYO: 6101) in March 1991 and held various positions from senior staff to senior supervisor and senior engineer in the technology division from March 1991 to March 2011, and was primarily responsible for design of machinery tools of which he was seconded to Shimamoto Seiko from September 1991 to April 2001. Mr. Hidano served in PTC from March 2011 to August 2012 and from November 2013 to December 2017, primarily responsible for development and administration of technology. From August 2012 to October 2013 and from 1 January 2018 onwards, Mr. Hidano was and is a senior technical staff of the technology division I of Tsugami Japan.

Mr. Hidano completed his studies of the fourth academic year in National Institute of Technology, Nagaoka College (長岡工業高等専門學校) in Japan in March 1988, majoring in mechanical engineering. National Institute of Technology has been designed to train graduates from junior high school.

Dr. Ng Lai Man Carmen (吳麗文) ("**Dr. Ng**"), aged 53, was appointed as our independent non-executive Director on 13 May 2015, and was redesignated as our non-executive Director on 12 December 2016. She is primarily responsible for supervising the business and providing business advice to the Board. Dr. Ng has more than 29 years of experience in professional accounting and corporate finance. Dr. Ng is a practicing certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants in the United Kingdom, and an associate member of The Institute of Chartered Accountants in England and Wales. Dr. Ng was appointed as the chief executive officer and licensed responsible officer of Hong Kong Asset Management Limited on May 2018, holding a regulated activity license registered with the Securities and Futures Commission of Hong Kong. She received her Doctor of Business Administration Degree from The Hong Kong Polytechnic University, Juris Doctor Degree from The Chinese University of Hong Kong, Master of Laws Degree in Corporate and Financial Laws from The University of Hong Kong, Master of Business Administration Degree from The Chinese University of Hong Kong, Master of Professional Accounting Degree from The Hong Kong Polytechnic University and Master of Science in Global Finance from The Hong Kong University of Science and Technology and Leonard N. Stern School of Business of New York University.

Dr. Ng is an independent non-executive director of eSun Holdings Limited (stock code: 571), Lion Rock Group Limited (previously known as "1010 Printing Group Limited", stock code: 1127) and Global International Credit Group Limited (stock code: 1669). The shares of the above companies are listed on the Stock Exchange. Dr. Ng acted as an independent non-executive director of Goldin Properties Holdings Limited (previously known as "Matsunichi Communication Holdings Limited", the shares of which were listed on the Stock Exchange and delisted in August 2017) from February 2004 to 25 August 2017.

Independent Non-executive Directors

Dr. Eiichi Koda (甲田英一) ("**Dr. Koda**"), aged 70, was appointed as the independent non-executive Director and a member of nomination committee of the Company on 13 May 2015 and 4 September 2017, respectively. Dr. Koda has been serving as a specially appointed professor from April 2013 to March 2015 and subsequently a guest professor, from April 2015 to March 2018, of the School of Medicine of Toho University (東邦大學) in Japan. From May 2003 to March 2013, Dr. Koda served as a professor of course of radiology of Ohashi Medical Center of the School of Medicine of Toho University (東邦大學醫學部大橋病院). Dr. Koda is serving as a director of the Imperial tower clinic.

Dr. Koda received his doctor's degree in medicine from Keio University (慶應義塾大學) in Japan in September 1994. He qualified as a medical doctor after passing the National Medical Practitioner Examination in Japan in June 1972.

Dr. Huang Ping (**黃平**) ("**Dr. Huang**"), aged 55, was appointed as our independent non-executive Director on 13 May 2015. He was appointed as a member of audit committee and remuneration committee since 4 September 2017, and was redesignated as the chairman of remuneration committee since 2 February 2018. From April 1991 to May 1999, Dr. Huang served as manager of software engineering in Uniden Corporation (now Uniden Holdings Corporation), a company listed on the Tokyo Stock Exchange (TYO: 6815) and primarily engaged in the manufacture and sales of wireless communications equipment, where he was a software group leader responsible for development of various kinds of wireless communication products. From May 1999 to November 2001, Dr. Huang served in Mitsubishi Wireless Communications, Inc., a company engaged in the manufacture and sales of wireless communications equipment, where he was responsible for design and implementation of TDMA/AMPS dual mode cellular phone. Dr. Huang had afterwards served various positions in CalAmp Corp., a company whose shares are listed on NASDAQ stock market (NASDAQ: CAMP) and is a wireless communication solutions provider. Since July 2009, Dr. Huang has been serving as the general manager of eSky Wireless Inc., (蘇州翼凱通信科技有限公司), a company engaged in the development and sales of GSM and W-CDMA wireless communications modules, where he was responsible for research and development of modules and products of GSM/GPRS for sales in North America, Japan and PRC, etc.

Dr. Huang received his bachelor's degree in wireless communication from Tsinghua University (清華大學) in July 1984. Dr. Huang obtained his master's degree and doctor's degree, majoring in electrical and electronic engineering, from Tokyo Institute of Technology (東京工業大學) in March 1988 and March 1991, respectively.

Mr. Tam Kin Bor (**譚建波**) ("**Mr. Tam**"), aged 49, was appointed as the independent non-executive Director of the Company on 12 December 2016. He was appointed as the chairman of audit committee and remuneration committee (redesignated as a member of remuneration committee since 2 February 2018), and a member of nomination committee since 4 September 2017. From September 1997 to March 2007, Mr. Tam worked in Ernst and Young Hong Kong and Beijing offices, and last served as a senior manager. From March 2007 to June 2010, Mr. Tam served as vice president for Deutsche Bank's wholly-owned subsidiary, Cathay Advisory (Beijing) Co., Ltd. Mr. Tam subsequently served as chief financial officer at Debao Property Development Ltd., (德寶房地產開發有限公司), a company listed on the Singapore Stock Exchange (stock code: BTF) and primarily engaged in property development, construction contractor and property. Mr. Tam also served as chief financial officer at Tianfang Hospitality Management Pte. Ltd., (天房酒店基金管理有限公司), where he was responsible for the overall finance and monitoring the financial performance of a real estate investment trust of company and preparation of accounts.

Mr. Tam received his bachelor's degree in accounting from Monash University in Australia in August 1997. He is a member of the Association of Certified Public Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He passed the test relating to capital markets and financial advisory services organised by the Institute of Banking & Finance Singapore in August 2015.

Senior Management

Dr. Li Zequn (李澤群) (“**Dr. Li”**), aged 57, joined the Group since April 2013 and is the vice president of the Group. He was a director of PTC from June 2017 to June 2018. He is also the general manager of internal audit department and the responsible person of technical department of the Group. Prior to joining the Group, from October 1991 to August 2003, Dr. Li served in Seiko Instruments Inc., (セイコーインスツル株式會社), a company primarily engaged in the manufacture of products and systems for the electronic product components and machine tools. He was an assistant manager from April 1998 to August 2003, and was primarily responsible for the development of electronics and machinery components. From September 2003 to March 2013, Dr. Li worked for Calsonic Kansei Corporation (カルソニツクカンセイ株式會社) and its group company. He was primarily responsible for formulating business strategies and carrying out feasibility study in the PRC; and he served as a manager in Calsonic Kansei Corporation (カルソニツクカンセイ株式會社) and the head of a PRC group company of Calsonic Kansei Corporation (カルソニツクカンセイ株式會社). Dr. Li was also responsible for the development of production technology, product integration, quality assurance and for the provision of technical support of Calsonic Kansei Corporation (カルソニツクカンセイ株式會社).

Dr. Li obtained his bachelor degree in engineering from North University of China (中北大學) (then known as Taiyuan Institute of Machinery (太原機械學院)) in July 1982. Dr. Li received his master’s degree and doctor’s degree in engineering, from Kanazawa University (國立金澤大學) in Japan in March 1988 and September 1991, respectively.

Mr. Jiang Ping (蔣平) (“**Mr. Jiang**”), aged 55, joined the Group since March 2006 and is the vice president of our Group and is a director of PTC and the president and a director of Tsugami Consultants. He is primarily responsible for business and operation of the Group. From August 1983 to October 1997, Mr. Jiang served as mechanic equipment engineer in China Huajing Electronics Group Company (中國華晶電子集團公司), a company which is engaged in manufacture and sale of semiconductor components. From November 1997 to February 2006, Mr. Jiang served as sales director in Accretech (China) Co. Ltd. (東精精密設備(上海)有限公司), a company primarily engaged in assembling, processing and sales of precision measuring instrument and semiconductor manufacturing equipment.

Mr. Jiang obtained his bachelor degree in radio engineering from Huazhong Engineering College (華中工學院) in the PRC in July 1983.

Mr. Lin Hsin-Tze (**林新澤**) ("**Mr. Lin**"), aged 48, joined the Group since January 2009 and is the vice president of our Group and a director of PTC and Shinagawa Precision. He is primarily responsible for production management of the Group. From March 1994 to November 2003, Mr. Lin served as deputy manager of the customer services team of Great Tung Ching Trading Co., Ltd (同清貿易股份有限公司), which primarily engages in distribution of high precision machine tools. From December 2003 to December 2008, Mr. Lin served as a manager in the production team of Tsugami Japan and was seconded to PTC as vice president from October 2004. Mr. Lin left Tsugami Japan in December 2008.

Mr. Lin completed his education in vehicle repair from The Affiliated Senior Industrial Vocational Continuing Education School Taoyuan Senior Agricultural Vocational School of Taiwan (台灣省立桃園高級農工職業學校附設高級工業職業進修補習學校) in Taiwan in June 1988.

Mr. Li Junying (**李軍營**) ("**Mr. Li**"), aged 44, joined the Group since November 2012 and is the assistant to president and financial manager of our Group. He is primarily responsible for financial administration of our Group. Mr. Li served in Matsui Mfg. Co., Ltd., (株式會社松井製作所), a company primarily engaged in manufacturing and sales of plastics processing equipment and systems from April 2007 to June 2012. From July 2012 to November 2012, Mr. Li served as the head of accounting department in Tsugami Japan where he was primarily responsible for the accounting matters.

Mr. Li obtained his bachelor degree in accounting from Huazhong University of Science and Technology (華中科技大學) in the PRC in October 2002. Mr. Li received degree of master of in technology management from Yokohama National University (橫濱國立大學) in Japan in September 2006.

Company Secretary

Ms. Wong Wai Yee Ella (**黃慧兒**) ("**Ms. Wong**"), aged 42, was appointed as the company secretary of the Company in June 2015. Ms. Wong is the director of corporate services of Tricor Services Limited, which is an operating company of Tricor Group, a global professional services provider specialised in integrated business, corporate and investor services. Ms. Wong is also the company secretary of Vedan International (Holdings) Limited (味丹國際（控股）有限公司) (stock code: 2317) and a joint company secretary of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司) (stock code: 1988) and ZhongAn Online P & C Insurance Co., Ltd. (stock code: 6060). Ms. Wong has over 15 years of experience in corporate services area. She served in the company secretarial department of Tengis Limited in Hong Kong from March 2001 to December 2003, where she was primarily responsible for providing outsourced company secretarial services to private companies. Ms. Wong was admitted as an associate of both the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries (former known as The Hong Kong Institute of Company Secretaries) in November 2000.

Ms. Wong received her bachelor's degree of Economics from the University of Hong Kong in December 1997 and her postgraduate diploma in corporate administration from the City University of Hong Kong in November 2000.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company and its Board recognize that sound corporate governance could not only strengthen the accountability of management and the confidence of investors, but also lay a favorable foundation for the long-term development of the Group. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**", including any modification and amendment from time to time) contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange as its own code of corporate governance. The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG code.

The Board considers that the Company has complied with all code provisions of the CG Code during the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD

The powers and duties of the Board include convening general meetings of the Company and reporting the Board's work at the general meetings of the Company, determining the business and investment plans of the Group, preparing the Group's annual financial budgets and final reports, formulating proposals for profit distributions and exercising other powers, functions and duties as conferred by the Company's articles of association, while the management of the Group is responsible for the daily management and operation of the Group.

There is no relationship (including financial, business, family or other material relevant relationship) between the Board members and between the Chairman and the Chief Executive Officer.

The Company has throughout the Reporting Period met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, accounting or related financial management expertise. At all times during the Reporting Period, the independent non-executive Directors represent at least one-third of the Board.

During the Reporting Period, the management has provided all members of the Board with monthly updates in accordance with the code provision C.1.2 of the CG Code.

BOARD COMPOSITION

Our Board currently consists of nine Directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors.

Executive Directors:

Dr. Tang Donglei *(Chief Executive Officer)*
Mr. Yoshimasa Hashimoto

Non-executive Directors:

Mr. Takao Nishijima *(Chairman)*
Ms. Mami Matsushita
Mr. Tatsushi Hidano *(Redesignated from executive Director with effect from 1 January 2018)*
Dr. Ng Lai Man Carmen

Independent Non-executive Directors:

Dr. Huang Ping
Dr. Eiichi Koda
Mr. Tam Kin Bor

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The biographical details of the Directors are set out under "Directors and Senior Management" section in this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the chief executive officer to ensure a balance of power and authority. The positions of Chairman and chief executive officer are held by Mr. Takao Nishijima and Dr. Tang Donglei respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the overall management and strategic planning of the Group and the effective functioning of the Board in accordance with good corporate governance practices, whereas the chief executive officer focuses on the day-to-day management of the Group's business and implementing objectives, policies, strategies and business plans of the Group approved and delegated by the Board.

NON-EXECUTIVE DIRECTORS (INCLUDING THE INDEPENDENT NON-EXECUTIVE DIRECTORS)

The non-executive Directors (including the independent non-executive Directors), with diversified industry expertise but not involved in the day-to-day management of the Group, serve the important function of advising the Board on strategic development of the Group, and ensure that the Board maintains high standards of financial and other mandatory reporting as well as provide adequate checks and balances for safeguarding the interests of the Company and the Shareholders as a whole. The Company has received confirmations of independence from all existing independent non-executive Directors and considers them independent, in accordance with Rule 3.13 of the Listing Rules. Each of the non-executive Directors (including the independent non-executive Directors) has entered into a service contract or an appointment letter (as the case may be) with the Company for a fixed term of three years, subject to retirement by rotation in accordance with the Company's articles of association.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each Director has induction on the occasion of his/her appointment by the listed company to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Pursuant to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to refresh their knowledge and skills. The existing Directors are continually updated on changes and developments to the Company's business and on the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities. Directors' training is an ongoing process. All Directors of the Company are encouraged to attend relevant training courses at the Company's expenses.

All Directors have participated in appropriate continuous development and provided the Company with their records of training they received during the year ended 31 March 2018.

BOARD MEETINGS

The Company considers that the Board should meet regularly so that all Directors are kept updated with the business development of the Group. Special meetings will be convened by the Board if the situation requires so. During the Reporting Period, the Board convened a total of three Board meetings.

Directors have received the meeting agenda and relevant meeting documents prior to each Board meeting. Board minutes are kept by the secretary of the Board and are available for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has access to the advice and services of the company secretary at any time, and has the liberty to seek external professional advice if so required.

BOARD COMMITTEES

Audit Committee

The Company has established an audit committee of the Company (the "**Audit Committee**") on 4 September 2017 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, which is available on the websites of the Stock Exchange and the Company.

As at the date of this report, the Audit Committee consists of three members, namely Mr. Tam Kin Bor, Dr. Huang Ping and Ms. Mami Matsushita, of whom Mr. Tam Kin Bor and Dr. Huang Ping are independent non-executive Directors and Ms. Mami Matsushita is a non-executive Director. The chairman of the Audit Committee is Mr. Tam Kin Bor. 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 auditors, reviewing and supervising the financial reporting process, risk management and internal control system of the Group, and reviewing the accounting policies and practices adopted by the Group.

During the Reporting Period, the Audit Committee held one meeting to review, assess and comment on the unaudited consolidated financial statements for the six months ended 30 September 2017. It has also reviewed the effectiveness of the risk management and internal control systems and internal audit functions of the Group. Meanwhile, the Audit Committee also carries out the following duties:

(1) making recommendation to the Board on the re-appointment of external auditors and approving their remuneration and terms of engagement;

(2) reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; discussing with the external auditors the nature and scope of the audit and reporting obligations; and

(3) implementing the policy of the Company on engaging external auditors to provide non-audit services.

The Group's audited consolidated annual results for the Year have also been reviewed by the Audit Committee, which is of the opinion that the preparation of such results is in compliance with the applicable accounting standards and requirements and that adequate disclosure has been made.

Remuneration Committee

The Company has established a remuneration committee of the Company (the "**Remuneration Committee**") on 4 September 2017 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, which is available on the websites of the Stock Exchange and the Company.

During the Reporting Period, the Remuneration Committee consists of three members, currently being 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 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 formal and transparent procedures 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. The remuneration policy for the Directors and senior management of the Group is based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors and senior management of the Group.

During the Reporting Period, one meeting was held by the Remuneration Committee in relation to the re-designation of Mr. Tatsushi Hidano from an executive Director to a non-executive Director, whose remuneration was changed accordingly at the same time.

Meanwhile, the remuneration packages for Directors and senior management of the Group are reviewed, and such remuneration packages are considered to be in line with the corporate market standards in the industry in which the Group operates.

Remuneration of Senior Management

During the Year, senior management's remuneration falls within the following band:

Remuneration band	Number of individuals
Less than HK$1,000,000	1
HK$1,000,001 to HK$2,000,000	3

Nomination Committee

The Company has established a nomination committee of the Company (the "**Nomination Committee**") on 4 September 2017 with written terms of reference in compliance with paragraph A.5 of the Code on Corporate Governance Practices and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, which is available on the websites of the Stock Exchange and the Company.

During the Reporting Period, the Nomination Committee consists of three members, namely Mr. Takao Nishijima, Mr. Tam Kin Bor and Dr. Eiichi Koda, of whom Mr. Tam Kin Bor and Dr. Eiichi Koda are independent non-executive Directors and Mr. Takao Nishijima is the chairman of the Board and a non-executive Director. The chairman of the Nomination Committee is Mr. Takao Nishijima. The primary duties of the Nomination Committee include, among others, considering and recommending to the Board suitably qualified persons to act as Directors, 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 the succession planning for Directors, in particular the chairman and the chief executive officer.

The Nomination Committee has also adopted a policy of diversity for memberships of the Board which aims to achieve diversity for memberships of the Board against a range of different perspectives, including but not limited to professional and industry experience, skills and knowledge, cultural and educational background, etc. These criteria will be considered in determining the optimum composition of the Board members and when practicable should be balanced appropriately. In reviewing and assessing the composition of the Board, the Nomination Committee will consider all different factors, including the aforesaid criteria, in order to maintain the diversity for memberships of the Board. When recommending new appointments to the Board, the Nomination Committee will consider candidates on merit against objective criteria including the ones set out above, with due regard for the benefits of diversity for memberships of the Board.

The Nomination Committee has reviewed the Board's composition under diversified perspectives and monitored the implementation of the board diversity policy and considered that the board diversity policy is effective. It is currently not required to set any measurable objectives for implementing the policy.

During the Reporting Period, one meeting was held by the Nomination Committee. The Nomination Committee has reviewed the structure, size, composition and diversity of the Board and the suitability of latest background information of Directors, and assessed the independence of independent non-executive Directors. Meanwhile, Mr. Tatsushi Hidano's position has been changed from an executive Director to a non-executive Director and recommendations have been made to the Board for such change of members of the Board committee.

Competition Executive Committee

The Company has established an executive committee (the "**Competition Executive Committee**") comprising two disinterested Directors, namely Dr. Tang Donglei and Dr. Ng Lai Man Carmen on 4 September 2017, and its major responsibilities are to monitor the business of the Controlling Shareholder and its close associates.

Competition Supervisory Committee

A supervisory committee (the "**Competition Supervisory Committee**"), comprising three independent non-executive Directors, namely, Dr. Huang Ping, Mr. Tam Kin Bor and Dr. Eiichi Koda, was established by the Company on 4 September 2017 with the following major responsibilities:

(i) to meet quarterly and review the quarterly inspection records and any communication records by the Competition Executive Committee; and

(ii) to report findings during its review of the records provided by the Competition Executive Committee to the Board which will be published in the Company's annual reports.

For details of the Competition Supervisory Committee's findings, please refer to the section headed "Directors' Report – Deed of Non-Competition" of this annual report.

Attendance of Meetings

The attendance records of the Directors at the Board meetings, committee meetings and general meetings of the Company during the Reporting Period are as follows:

	No. of meetings attended/held				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Extraordinary general meeting
Executive Directors:					
Dr. Tang Donglei *(Chief Executive Officer) (Note 1)*	3/3	N/A	N/A	N/A	1/1
Mr. Yoshimasa Hashimoto *(Note 2)*	3/3	N/A	1/1	N/A	0/1
Non-executive Directors:					
Mr. Takao Nishijima *(Chairman)*	3/3	N/A	N/A	1/1	0/1
Ms. Mami Matsushita	3/3	1/1	N/A	N/A	1/1
Mr. Tatsushi Hidano	3/3	N/A	N/A	N/A	0/1
Dr. Ng Lai Man Carmen	3/3	N/A	N/A	N/A	1/1
Independent non-executive Directors:					
Dr. Huang Ping	3/3	1/1	1/1	N/A	0/1
Dr. Eiichi Koda	3/3	N/A	N/A	1/1	0/1
Mr. Tam Kin Bor	3/3	1/1	1/1	1/1	1/1

Notes:

1 Dr. Tang Donglei has been appointed as a member of the Remuneration Committee since 2 February 2018.

2 Mr. Yoshimasa Hashimoto ceased to be a member of the Remuneration Committee since 2 February 2018.

For the year ended 31 March 2018, no annual general meeting was held as the Company was newly listed on 25 September 2017.

CORPORATE GOVERNANCE FUNCTIONS

According to code provision D.3 of the CG Code, the Board is responsible for performing the corporate governance duties of the Company. The Board has the following duties and responsibilities in performing the corporate governance duties of the Company:

1. to develop and review the Group's policies and practices on corporate governance;

2. to review and monitor the training and continuing professional development of the Directors and staff of the Group;

3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

5. to review the Group's compliance with the CG Code as set out in the Listing Rules and disclosure in the corporate governance report in annual report of the Company.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

During the year ended 31 March 2018, the fees paid or payable to the independent auditors, Ernst & Young and its affiliate companies, for services rendered in respect of audit and non-audit natures are as follows:

Type of services	**RMB'000**
Audit services – audit fees for the year ended 31 March 2018	905
Non-audit services – interim review fees for the six months ended 30 September 2017	400
Non-audit services – others *(Note)*	2,657
Total	3,962

Note: Other non-audit services represented professional services rendered as reporting accountants in relation to the listing of the Company's shares on the Main Board of the Stock Exchange and other review services.

The independence of the external auditors is monitored by the Audit Committee which is also responsible for making recommendations to the Board on the appointment of the external auditors as well as approving their terms of engagement and remuneration.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the financial position of the Group and of the results and cash flows of the Group for that year and in compliance with relevant laws and disclosure provisions of the Listing Rules.

In preparing the financial statements for the year ended 31 March 2018, the Directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent and reasonable, and have prepared disclosure of the financial position of the Group with reasonable accuracy at any time.

Apart from uncertainties for shortages or longer lead times in some key parts procured externally since October 2017 resulting in slight influence on the production of the Company, as disclosed in the section headed "Chairman's Statement" of this annual report, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

COMPANY SECRETARY

The company secretary of the Company is Ms. Wong Wai Yee Ella delegated by an external service provider. The external service provider's primary contact person in the Company is Dr. Li Zequn, the vice president of the Group. Ms. Wong Wai Yee Ella fulfils the qualification requirements contained in the Listing Rules and her biographical details are set out under "Directors and Senior Management" section in this annual report. Ms. Wong Wai Yee Ella has received no less than 15 hours of related professional trainings during the Year pursuant to the relevant training requirements under Rule 3.29 of the Listing Rules.

SHAREHOLDER RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

According to the article 12.3 of the articles of association of the Company, general meetings shall be convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition is not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for Shareholders to Put Forward Proposals at General meeting

If a shareholder wishes to put forward proposals at a general meeting, the shareholder, who has satisfied the shareholding requirements set out in the above paragraph headed "Procedures for Shareholders to Convene an Extraordinary General Meeting", may follow the same procedures by sending a written requisition to the Board or the company secretary at the principal place of business of the Company in Hong Kong. The shareholder should state his/her proposals in the written requisition and submit the written requisition as early as practicable to enable the company secretary to make necessary arrangement.

Procedures for Shareholders to Propose a Person for Election as a Director

According to article 16.4 of the articles of association of the Company, if a Shareholder wishes to propose a person (the "**Candidate**") for election as a Director of the Company at a general meeting, he/she shall deposit a written notice (the "**Notice**") at the Company's principal place of business in Hong Kong at 21/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong upon the issue of the notice of general meeting by the Company, of which addressee is the company secretary of the Company. The Notice: (i) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information. The period for lodgement of the Notice shall commence on the day after the despatch of the notice of general meeting and end no later than 7 days prior to the date of such general meeting. In order to allow the Company's shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director of the Company, Shareholders who wish to make the proposal are urged to submit and lodge the Notice as early as practicable before the relevant general meeting.

Procedures for Putting Enquiries to the Board

Shareholders may, at any time, direct enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by email to ir@tsugami.com.cn for the follow-up action of investor relations team.

INVESTOR RELATIONS

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting analysts' briefings, road shows, participating in investors' conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts.

The Group's website (www.tsugami.com.cn) contains an "Investor Relations" section which offers timely access to the Company's press releases, financial reports and announcements. The Company will continue to maintain an open-door and effective policy for investor communication and to update investors with relevant information of the Group in due course.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has acknowledged its responsibility for the risk management and internal control systems of the Group, and has established such system and continuously supervised and reviewed the effectiveness of the systems operation as required in the paragraph C.2 of the CG Code set out in Appendix 14 of the Listing Rules, with the purpose of managing the risk of failure to achieve the business objective, enhancing the effective and efficient operation. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's Risk Management and Internal Control Framework

The Group has commissioned an independent professional risk advisor to help build risk management framework, develop the "Risk Assessment Manual", and conducted risk assessments to determine the nature and extent of the Group's risks. In the risk assessment process, the management and the internal audit department of the Group, have identified the major risks faced by the Group and ranked these risks according to the likelihood and the severity of the impact on the business of the Group, as well as further developing risk management measures to maintain the risks at an acceptable level.

The internal audit department of the Group is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems.

The management and the internal audit department of the Group would report to the Audit Committee and the Board on all findings and the effectiveness of the risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the risk management and internal control systems, and makes recommendations. The Audit Committee also ensures that an overall review of the effectiveness of such systems is conducted at least annually and put forward to the Board for consideration. The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives; and acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness.

Review of Risk Management and Internal Control System

The Board and its Audit Committee reviewed the effectiveness of the Company's risk management and internal control systems which include financial, operational and compliance controls during the Reporting Period, as well as taking into account the adequacy of resources, staff qualifications and experience and trainings for the staff of the Company's accounting and financial reporting and internal audit functions. Procedures have been set up for, inter alia, safeguarding assets against unauthorized use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications. Management throughout the Group maintains and monitors the risk management and internal control systems on an ongoing basis.

The Board reviewed the financial, operational and compliance monitoring systems during the Reporting Period and assessed the effectiveness of such systems after considering the work performed by the Audit Committee, the management of the Group, external and internal auditors.

Based on the reports submitted by the internal audit department and the management, the Board considered that the Company's risk management and internal control system are effective and adequate.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Board has established the Inside Information Policy for the handling and dissemination of inside information. The Inside Information Policy stipulated the obligations of the Group, restriction on sharing non-public information, handling of rumors, unintentional selective disclosure, exemptions and waiver to the disclosure of inside information, external communication guidelines and compliance and reporting procedures. Management of the Group must take all reasonable measures from time to time to ensure that proper safeguards are in place to prevent a breach of a disclosure requirement in relation to the Group. They must promptly bring any possible leakage or divulgence of inside information to the attention of the financial manager who will notify the Board as soon as reasonably practicable accordingly for taking the appropriate prompt action. In the event that there is evidence of any material violation of the Inside Information Policy, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding the likelihood of its recurrence.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

Precision Tsugami (China) Corporation Limited is an investment holding company and the Company, together with its subsidiaries, manufactures and sells CNC high precision machine tools in the PRC and internationally.

While promoting a sound business growth, the Group is also committed to building an environmentally-friendly corporation and maintaining high quality standards in its services and operations. The Group considers social and environmental responsibilities as one of the core values in its business operations, the Group strives for greater sustainability and transparency, as well as to deliver services that foster a sustainable environment for its future generations.

This report summarizes several subjects of the Group's business practices for the Environmental, Social and Governance Report (referred to as the "**ESG Report**") and its relevant implemented policies and strategies in relation to the Group's operational practices and environmental protection. The reporting period of this ESG report is the Fiscal Year of 2018.

REPORTING FRAMEWORK

This report follows the Environmental, Social and Governance Reporting Guide (referred to as the "**ESG Reporting Guide**"), as set out in Appendix 27 to the Listing Rules of the Stock Exchange.

REPORTING SCOPE

Given that the Group is an investment holding and manufacturing company, the contents of this ESG report content are concerned primarily with the operation of PTC, its major operating subsidiary in the PRC.

OUR STAKEHOLDERS

The Group believes that understanding the views and opinions of its stakeholders lays a solid foundation to the long-term growth and success of the Group. The Group has developed multiple channels to a broad spectrum of stakeholders in order to understand their views on its sustainability performance and future strategies.

The information collected through different communication processes serves as an underlying basis for the structure of this ESG Report.

Stakeholders	Engagement channels	Possible concerned issue
Investors	Annual report, annual general meetings, corporate website, directors communication	Business strategies and financial performance, corporate governance, business sustainability
Customers	Direct communication and emails, complaint hotlines, opinion boxes, customer surveys	Service quality, timely service, customers security, privacy protection
Employees	Interviews, trainings, internal memos	Rights and benefits, employee compensation, training and development, work hours, occupational health and safety
Suppliers and business partners	Business meetings, tenders	Fulfillment of promises, payment schedule
Government	Tax returns	Compliance to the laws and regulations, fulfillment of tax obligations
Local community	Develop community activities, employee voluntary activities, donations and sponsorships	Business ethics, fair employment opportunities, collaborative development, environmental protection

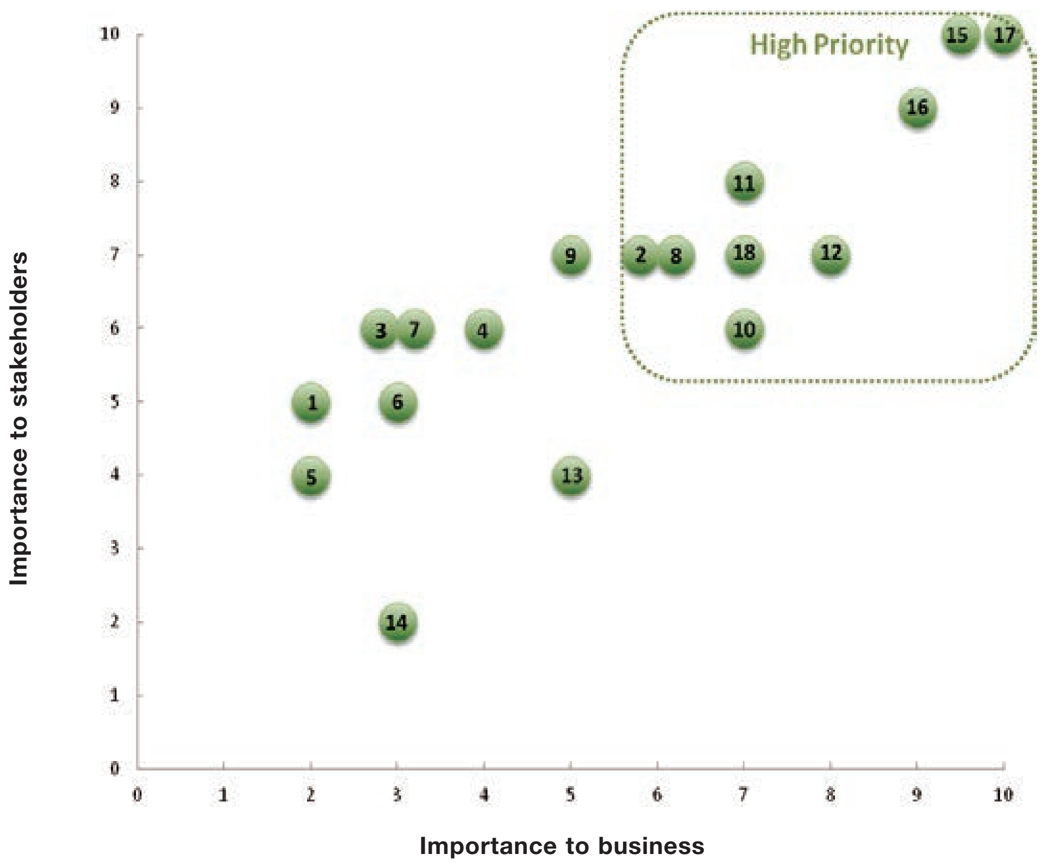
MATERIALITY ASSESSMENT

ESG aspects as set out in ESG Reporting Guide		Material ESG issues for the Group
A. Environmental	*A1 Emissions*	1. Air Emission
		2. Greenhouse Gas Emission
		3. Waste Management
	A2 Use of Resources	4. Energy Consumption
		5. Water Consumption
		6. Paper consumption
		7. Packaging Material Used for Finished Products
	A3 The Environment and Natural Resources	8. Environmental Risk Management
B. Social	*B1 Employment*	9. Human Resources Practices
		10. Remuneration Policies
		11. Equal Opportunity
	B2 Health and Safety	12. Employees' Health and Workplace Safety
	B3 Development and Training	13. Employee Development
	B4 Labor Standards	14. Anti-child and Forced Labor
	B5 Supply Chain Management	15. Supplier Practices
	B6 Product Responsibility	16. Service Quality and Customers Satisfaction
		17. Protection of Customers Privacy
	B7 Anti-corruption	18. Anti-corruption and Money Laundering
	B8 Community Investment	19. Community Support

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Based on the information collected from its stakeholders and its assessments of their importance on business, the Group has identified the high priority issues being concerned the most:

Materiality Matrix



Amongst various environmental and social issues based on the ESG Reporting Guide within the scope of sustainability, the below are the list of issues that are considered to be material and relevant to the Group. The priorities are set based on management's view as well as certain conclusions from stakeholders' engagement.

Number	Topics
2	Greenhouse Gas Emission
9	Human Resources Practices
11	Equal Opportunity
12	Employees' Health and Workplace Safety
13	Employee Development
16	Service Quality and Client Satisfaction
17	Protection of Client Privacy
18	Anti-corruption and Money Laundering
19	Community Support

The Group noticed that these material topics provide insights for the Group to formulate the direction of sustainable development to respond to the expectation of our stakeholders.

OUR APPROACH TO SUSTAINABILITY DEVELOPMENT

As a responsible corporation, the Group continues to step up with sustainability measures as a corporate responsibility as well as meeting the standards of our customers. To allow its investors and stakeholders being properly informed for assessment, the Group has put its effort to impose varies measurements and policies to minimize the negative influence to the environment, to promote its employees' well-being and to contribute to the community during the Fiscal Year of 2018.

OUR MISSION

The Group's mission is to facilitate and encourage human creativity, innovation and inspiration through provision of computer numerical control machine tools. With this mission, the Group believes the following 5 core values lead it to success:

A Will to Succeed

The Group is dedicated to create long term and sustainable value for its investors. As such, the Group continuously pursue excellence in our performance, not only in financial, but also in non-financial aspects.

Integrity and Honesty in All Areas of our Business

The Group stresses on business ethics. The Group behaves, and requires its business partners to behave in an honest and moral manner.

Respect for People

The Group treats its staff, customers, partners and suppliers with mutual respect and sensitivity. The Group values their contributions and keep pace with them.

Protection of the Environment

The Group is committed to minimize its potential adverse impacts on the environment and preserve natural resources.

Pride in our Service and Product Quality

The Group treasures its customers and strive to satisfy them with quality products and services to customers.

ENVIRONMENTAL RESPONSIBILITY

The Group's Environmental Management System is in conformity with ISO 14001:2015 Environmental management systems-Requirements with guidance for use. The Group is committed to provide quality services to the client in a manner that minimizes its potential adverse impact on the environment and preserve natural resources. The Group strives to comply with relevant laws and regulations of Environmental Protection Department in the PRC.

The following regulations are adopted as the assessment standards:

- Environmental Protection Law of the People's Republic of China;
- Water Pollution Prevention and Control Law of the People's Republic of China;
- Air Pollution Prevention and Control Law of the People's Republic of China;
- Solid Waste Pollution Prevention and Control Law of the People's Republic of China;
- Evaluation of Environmental Impact Law of the People's Republic of China; and
- Regulations on Environmental Protection and Management of Construction Projects.

The following are the steps that the Group has taken to manage significant impacts of activities on the environment and natural resources:

- Identify main content and objective of the project
- Set up an environmental management team to monitor resources consumption
- Assess on whether monitoring results meet with the relevant requirement standard
- Establish environmental plan and estimate amount and percentage of target goal
- Conclude the environmental impact, measures to control total emission and improvements

Aspect A1: Emissions

Air Emission

During the Fiscal Year of 2018, the Group has established assessment on whether air monitoring results meet with the requirement of the "Ambient Air Quality Standards" in the PRC. There are machineries in the production plants, which are powered by electricity and the heating system will be operated during the winter, and have no significant effect to the environment.

During the Fiscal Year of 2018, the Group's main source of air emission come from the use of vehicles, the level of which has been in compliance with the relevant air quality laws and regulations in the PRC.

The Group strives to improve the air quality at the roadside and improve traffic flow problem. The Group encourages our staff to use public transportation to replace many separate emission-producing vehicles with few transit vehicles that generally cause less pollution on a per person basis. The Group has established policy to limit the emission during the production and transportation activities to restrict the operators and drivers to switch off the machinery and vehicles when they are in standby mode or vacant for 15 minutes.

During the Fiscal Year of 2018, the air emission generated from the Group's use of vehicles is 0.88 kg of Sulphur Oxides (SOx), 13.11 kg of Nitrogen Oxide (NOx), and 1.29 kg of Particulate Matter (PM).

Greenhouse Gas Emission

The Group's main business carbon footprint is the greenhouse gas emission from vehicles, the use of electricity and, such as lighting system, air-conditioning, computers, printers and other office equipment, business travel and paper waste. Through the continuous improvement in environmental management, the Group has reduced greenhouse gas emission from tree planting programme, and cardboard and paper recycling; as a result, a total of 12.38 tonnes of CO_2e emission has been deducted from the Group's greenhouse gas emission.

(i) Greenhouse Gas Emission from 1 April 2017 to 31 March 2018

Emission Sources	**CO_2e Emission (in tonnes)**	**Total Emission (in percentage)**
Scope 1 Direct Emission	211.92	1.53%
Company vehicles	153.90	1.11%
Refrigerant	69.52	0.50%
Tree planting	(11.50)	(0.08)%
Scope 2 Indirect Emission	7,621.16	55.04%
Purchased electricity	7,621.16	55.04%
Scope 3 Other Indirect Emission	6,013.60	43.43%
Business travel	124.96	0.90%
Electricity used for fresh water	25.86	0.19%
Emission from waste processing	5,768.68	41.66%
Production material	94.94	0.69%
Paper consumption	0.04	0.01%
Paper recycling	(0.88)	(0.00)%
Total	13,846.68	100.00%

During the Fiscal Year of 2018, there were 13,846.68 tonnes of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation. The total production volume of the Group was 7,553 units, and its annual emission intensity for the year was 1.83 tCO_2e/production volume.

Water Pollution

The Group strictly follows the "Integrated Wastewater Discharge Standard" issued by the State Environmental Protection Administration for the treatment of water pollutants discharged.

The Group has sewage treatment facilities in place to process sewage effluent until it meets the required standard before discharging. The Chemical Oxygen Demand (COD), Biological Oxygen Demand (BOD5), suspended solids (SS) and ammonium (NH4) level of sewage after treatment met the grade 1 emission standard of "Integrated Wastewater Discharge Standard" (GB8978-1996).

Non-Hazardous Waste

Non-hazardous waste produced from operation mainly comprises waste from household and office activities, which include paper, plastics, glass and food waste which they have all been handled over to the centralized management by service providers recognized by the government.

During the Fiscal Year of 2018, the Group has produced 27,165.55 tonnes of non-hazardous waste, and its intensity is 3.60 tonnes/production volume.

Hazardous Waste

The Group has established clear procedures for the disposal and management of construction waste and has separators in place to monitor the residue generated from the production process.

The Group has complied with the relevant environmental protection regulations regarding the Administration of Pollutants Discharge Permit in Zhejiang Province and has obtained a sewage discharge permit.

During the Fiscal Year of 2018, the Group has produced 12.92 tonnes of hazardous waste, and its intensity is 0.002 tonnes/production volume.

Waste Management

The wastes produced by the Group's operation are mainly generated in the daily life and by the operation of the office, including paper, plastic, glass, and kitchen waste. To raise awareness on the waste issues, the Group has given advices to our employees on how to reduce their own waste both at work and at the cafeteria; a surveillance camera has also been set up at the dining hall to prevent and minimize the amount of food going to composting every day. Any employee who has been seen throwing food away will be given with verbal warning for the first time, and disciplined for the second time.

The Group has assigned an administrative staff to manage and transport the wastes and recyclables for both Garbage and Recycled Waste pick-ups at a specific day in a month.

The assigned administrative staff's duty includes but not limited to the following:

- Organize and maintaining the waste separation and recycling bins;
- Place appropriate signage on walls and bins, stating what type of waste or recyclable should be placed in the bin; and
- Sort recycled waste into appropriate receptacles, and inform employees on sorting methods if needed;

The followings are the details of the Group's regulations on hazardous waste storage warehouse management:

i. The assigned hazardous waste management staffs are responsible for the storage of hazardous wastes, and other staff may not enter the storage area without permission.

ii. All departments must collect and store hazardous wastes in accordance with the regulations and send the hazardous wastes to the warehouse within a specified time. No hazardous wastes should be stored outside the warehouse.

iii. Hazardous waste management staff must regularly inspect the storage tanks for leakage. If leakage is found, they must take timely measures to replace them.

iv. Hazardous wastes must be classified and stored in the designated storage area.

v. Reactive hazardous liquids must be stored in separate containers.

vi. All containers must be affixed with the label indicating the name and identification of the waste.

vii. Hazardous waste generated by various departments must be registered every time when it is sent to the hazardous waste storage facility and records must be kept accordingly.

viii. To prevent burning and explosion accidents of hazardous wastes, it is forbidden to use any fire equipments when entering the warehouse.

The Group's hazardous waste reduction initiative has been effectively implemented and has complied with all environmental laws and regulations in the PRC in managing hazardous wastes in its operation during the Fiscal Year of 2018.

Measures to reduce the use of energy and other resources, to minimize the use of paper, and to waste management are discussed below under Aspect A3 of this ESG Report.

Aspect A2: Use of Resources

In respect of effective use of resources (including energy, water and other raw materials), the Group strictly implemented the Law of the PRC on the Water Resources (《中華人民共和國水法》), the Law of the PRC on Power Generation (《中華人民共和國電力法》), the Law on Energy of the PRC (《中華人民共和國能源法》), the Law of the PRC on Conserving Energy (《中華人民共和國節約能源法》) and other relevant laws and regulations.

Our resources consumption for the Fiscal Year of 2018 is as follows:

Type of Resources	Consumption	Intensity (unit/production volume)
Electricity	9,244,100 kWh	1,223.90
Water	46,017 tonnes	6.09
Paper	44.23 tonnes	0.01
Packaging Material Used for Finished Products	59.06 tonnes	0.008

The Group has established clear regulations on resources consumption in business operation to ensure effective use of resources. It also adopts various measures to cut power consumption, including promotion of energy saving as well as recycle and reuse of resources in its daily operation and working environment, so as to reduce the negative environmental impact.

The Group did not have problems in seeking appropriate water resources. The existing supply of water resources could satisfy the Group's needs in the aspect of volume, quality of water and the guarantee of water supply facilities. In the Fiscal Year of 2018, the Group has started saving water resources through carrying out measures of reduction in water consumption, recycling and utilization of industrial waste water, etc. in major water consumption process including daily operation and production processes.

All of the packaging material used for finished products of the Group including plastic, paper and metal are used for packaging. In the Fiscal Year of 2018, the Group consumed packaging materials of approximately 59.06 tonnes in total, which consist of 21.63 tonnes of plastic, 14 tonnes of paper and 23.43 tonnes of metal.

Aspect A3: The Environment and Natural Resources

Electricity

The Group's operations have generated green house gases indirectly by electricity consumed to power our facilities. The Group has committed to minimize our energy usage. The commitments are driven by our energy saving intuition to minimize ecological footprints of electricity and coal. The Group has implemented the following measurements at the workplace and all of our staffs have obligation to follow:

- Incorporate environmental friendly reminder/label across the sites;
- Deploy natural light as much as possible;
- Install energy saving light bulbs and LED lights across all our offices;
- Turn off the machineries, light and air conditioner when leaving the site;
- All factory machines and computers are set to power saving mode; if the machines are not in use and the computers did not detect any movement for 20 mins, all machines and monitors should be shut down to save energy;
- Set the temperature of the air-conditioner to the energy-efficient level, 24-26℃ ; and
- Continually upgrade its factory machineries and computer equipment, servers, and monitors to more energy efficient models.

Water Utilization

The Group's main source of water consumption comes from the production process, toilet flushing, washing and canteen. The Group recycle the industrial wastewater and reuse it after treatment, all sewage produced are collected and processed by qualified sewage treatment companies. For domestic wastewater, the Group examines the water quality before drainage to ensure they meet the national and local environmental requirement.

In addition, the Group has adopted a numbers of measures to save water as following:

- Always turn taps off tightly so they do not drip;
- Collect rainwater in our factory for watering plants use;
- Make use of dual-flush toilet to save water;

- Adopt effective water-saving production methods and instruments;

- Check the hoses and pipes for leaks, cracks, and other damage regularly and repair it in a timely manner; and

- Give priority to effective water-saving products in the purchase decision

Paper Reduction

Consumption of paper significantly draws negative impact to our environment. Voluminous paper consumption leads to deforestation. Serious efforts are needed to ensure that the environment is protected. With the aim of minimizing the impact of our business operation on the environment, the Group has implemented measures for environmental protection that minimize paper usage at the office. To ensure papers are consumed in the most efficient way and make it convenient for staff and clients to do so, the Group has provided paperless billing options for clients, and has imposed eco printing modes for staff. The Group encourages staff to use electronic communications for directories, forms, reports and storage when possible. Lastly, the Group has recycled paper, carton box and envelope that have been used, including all non-confidential documents from the Group.

SOCIAL RESPONSIBILITY

The Group believes building strong and lasting relationship with our employees and suppliers is essential to our on-going commitment as a socially responsible corporate. Besides, maintaining an honest and authentic dialogue is indispensable as a responsible organization and partner to our stakeholders.

Aspect B1: Employment and Remuneration Policies

Employees of the Group are remunerated at a competitive level and are rewarded according to their performance and experience. The Group has implemented a five-day work week for employees at all level. The promotion and remuneration of the Group's employees are subjected to review regularly. Employees are entitled to transportation allowance, long service payment, transportation and accommodation allowance in addition to annual leave and sick leave. Details are set out in the Employee Handbook, to ensure transparency of information on the employees' responsibilities and rights.

The Group's essential policies and procedures are included in the Employee Handbook, and they are regularly being reviewed and updated. The Group discourages and disallows any behavior that violates the regulations under the Employee Handbook. Offenders will receive warning, and the Group has the right to terminate such employment contract with offenders for serious violations. During the Fiscal Year of 2018, the Group did not find significant violations of laws and regulation relating to the human resources.

Employment

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics, gender or age. The Group has managed to embrace inclusive employment by recruiting people with disabilities or health conditions. The Group has modified the work counter to facilitate the use of wheelchair, and provided a mentor to coach the disabled staffs on relevant job skills and help them adapt to the working environment. The Group has established and implemented policies that promote a harmony and respectful workplace. The "Code of Conduct Manual" has outlined the terms and conditions of employment, expectation for employees' code of conducts and behaviors, and employees' rights and benefits.

The Group offers entertainment facilities for employees' use and regularly organizes activities to foster their communication and interaction; an online message group has also been set up for staff to exchange ideas.

With the aim of ensuring fair and equal protection for all employees, the Group has zero tolerance on sexual harassment or abuse in the workplace in any form, which is a violation of the PRC laws.

The Human Resources Department conducts a comprehensive recruitment review process to ensure that the data provided by the candidates are accurate. The Group's recruitment and promotion process are carried out in a fair and open manner for all people; employees are recognized and rewarded by their contribution, work performance and skills, and outcomes will not be affected by any discrimination on the grounds of age, sex, physical or mental health status, marital status, family status, race, skin color, nationality, religion, political affiliation and sexual orientation and other factors.

The Group strictly prohibits the employment of children or forced labor and has set out the policies in the labor code to eradicate child labor, juvenile workers and forced labor.

During the Fiscal Year of 2018, the Group did not identify any major non-compliance with laws and regulations in relation to the employment practices.

Aspect B2: Health and Safety

The Group prides itself on providing a safe, effective and congenial work environment as the Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. The Group works hard to provide a safe, healthy and comfortable working environment and has complied with the Labor Legalization and other applicable regulations in the PRC.

The Group also has assigned a responsible person in the Administration Department to identify any actual and potential hazards and risks to each individual and work towards safe and hygienic work environment, and to ensure that office and work environment is in line with or higher than requirements of relevant laws. The Group's building management office has also arranged rescue, fire and evacuation drills to improve staff safety awareness; and employees are expected to comply with the policies and procedures, and cooperate in all safety trainings.

During the Fiscal Year of 2018, the Group has received a Work Safety Standardization Certification by the Work Safety Administration of Zhejiang Province. The Group did not find any case of violations of laws and regulations in relation to the health and safety of the workplace, and neither work-related fatalities nor work injury was noted.

Aspect B3: Development and Training

The Group regards its employees as the most important asset and resource as they help to sustain its core values and culture. To retain the best employees in our operation, the Group offers reimbursement of course fee to the employees to encourage them to study and to take any relevant examinations. Study leave is also given to motivate our employees.

The Group is committed to providing comprehensive professional capability trainings, including internal trainings and external courses such as fire trainings, safety manager trainings, trainings on safe operation of long transmission channels and trainings on operation of special equipment. The Group also encourages staff exchange and job rotation between departments, which it collectively serves as a platform to encourage the Group's employees to develop potential and self-improvement.

Aspect B4: Labor Standard

The Group has established and implemented a "Human Resources Manual" which contains policies relating to relevant labor laws, regulations and industry practices, covering areas such as compensation, dismissal, promotion, working hours, recruitment, rest periods, diversity and other benefits and welfare.

In addition, the Group strives to ensure an equal and fair working environment. The Group has strictly complied with the Labor Ordinance and does not tolerate any form of sexual harassment, harassment and abuse in the workplace, which is a violation of the employment law in the PRC.

The prohibition of child labor and forced labor practices are also set in accordance with all relevant laws and regulations that applied in the PRC. Before hiring any job applicant, the Group's Human Resources Department will verify their age by checking their documents that prove the age of applicant and ensure that the applicant's look is in consistent with the photograph on the identification card.

During the Fiscal Year of 2018, no violation regarding the age of employment and labor dispute has occurred between the Group and employees.

OPERATING POLICIES

The Group has incorporated a "Code of Conduct Manual" to set out the general compliance related practice and procedures for the conduct of business of the Group. The "Code of Conduct Manual" is subject to review and amendments by the Board from time to time.

Aspect B5: Supply Chain Management

In the selection of supplier process, the procurement department will not only take into account the quality, price and commercial consideration, but also take in their environmental and social commitment in the evaluation process. Suppliers who do not pass the assessment will be removed from the suppliers' list and such cooperation will then be terminated.

To ensure supply chain efficiency, the Group has required suppliers to keep the major risks of its works within the acceptable range under the national and industrial standards, and that the suppliers provide a safe workplace for its employees. The Group has regularly inspected the work with contractors, and has made sure that the contractors have organized safety inspections and equipped its employees with the appropriate safety awareness and skills.

In addition, to integrate the environmental vision into the procurement of office supplies; during the Fiscal Year of 2018, the Group has avoided disposable products and chose suppliers who provide durable products with less packaging materials. Purchase priority is given to environmentally friendly products, such as refillable ballpoint pens and mechanical pencils, and environmental paper, so as to raise their awareness of sustainable development.

Aspect B6: Product Responsibility

The Group is committed to providing quality products that satisfy customers' needs, and has set fairness and safety as the centre of its procurement and service procedure. Meanwhile, the Group has established and made public its own customers' interest policy, which it is implemented throughout the corporate operation to safeguard customers' interests.

The Group has produced quality goods according to a set of comprehensive Quality Control System basing on the ISO 19001, which specifies the standard procedure for the provision of computer numerical control machine, appliances and accessories.

During the Fiscal Year of 2018, the Group did not identify any non-compliance with laws and regulations in relation to product and service quality.

Customer Information

The Group collects and uses customer information in a responsible and non-discriminatory manner by restricting the use of the customer information to purposes consistent with those identified in the contract. The Group's employees are taught to handle customers' personal data with care, and they may get information about the customer only when there is a good reason to do so.

Public Interest and Accountability

The Group ensures our services are conducted in a manner that consistent with the highest ethical standards. This helps to ensure quality products at all times to gain the confidence of customers and the public.

During the Fiscal Year of 2018, the Group did not receive any complaints in regards to its services, and the Group strives to continuing provide high quality service in the most ethical manner.

Aspect B7: Anti-corruption and Anti-Money Laundering

The Group is committed to achieving and maintaining the highest standards of openness, probity and accountability. Employees at all levels are expected to conduct themselves with integrity, impartiality and honesty. It is every employee's responsibility and all interests of the Group to ensure any inappropriate behavior or organizational malpractice that compromises the interest of the shareholders, investors, customers and the wider public does not occur under any circumstances.

The Group has adopted "Code of Conducts Manual" that includes provisions for conflicts of interest, privacy and confidentiality of information, due diligence, bribery and anti-corruption. The Group upholds a high standard of business integrity throughout its operations. Management considers a system with a good moral integrity and anti-corruption mechanism as the cornerstone for the sustainable and healthy development of the Group. The contravention of these policies will be subject to disciplinary action or termination of employment.

Whistle-blowing policy is implemented to encourage employees and others who have serious concerns about any aspect of the council's work to come forward and voice those suspected misconduct, illegal acts or failure to act. Employees who breach anti-corruption policy will face disciplinary action, which could result in dismissal for serious misconduct. Any suspicious transactions would be notified and reported to the relevant governing body by the responsible officer.

In respect of the Group's operation in the PRC, the Group observes the relevant laws and regulation of Criminal law of the PRC and the Anti-Unfair Competition Law of the PRC. The Group has instruction and directives in relation to anti-corruption, money laundering and fraud. During the Fiscal Year of 2018, the Group has strictly abided by all the rules and regulations, no litigation regarding bribery has been instituted against the Group and its staff.

Aspect B8: Community Investment

As a corporate citizen, the Group is committed to participate in the community events to the improvement of community well-being and social services. The Group believes that by encouraging employees to participate in varies of charitable events, concerns for the community will be raised and boosted; as a result, it will inspire more people to take part in serving the community. During the Fiscal Year of 2018, the Group has held numbers of activities and events for our employees and the local community.

1. Tsugami Corporate Cultural Activity Day

The Group held a cultural activity day for our employees and their children to engage in innovative activities and allow employees to share ideas, work through problems, and socialize under the same roof. Different homeware prizes have been given to families who have shown strong leadership skills throughout the day.

2. *Clothing Donation Day*

The Group has organized a charitable event for donation of clothes, during the event; our employees have donated, sorted and distributed clothes to the people in need.

3. *Tree Planting Day*

The Group has taken this voluntary tree planting day as an opportunity to get employees to experience the joy of planting activities and beautifying the environment for the development zone. Throughout the day, our employees have enhanced understanding of Mother Nature, consciousness of environmental protection, and ecological awareness, while increasing the number of plants.

4. Civilized Traffic Volunteer Action

To minimize the recurring incidence of road crashes at the intersections near the Group's office in the PRC, the Group has initiated volunteers to assist pedestrians and riders to cross intersections safely. Every morning, a team of four volunteers act as traffic wardens to monitor and advice pedestrians and riders to wait at the appropriate area during red light periods.

SUSTAINABILITY

The Group understands the importance of achieving economic, environmental and social sustainability for the long term success of our business. The Group's sustainability guidelines lay out our principles and actions for managing and performing ethically and sustainably, throughout our operational flow. The Group will continue to deliver safe and quality services served by our enthusiastic team members, without endangering the environment. The Group will also continue to provide hearty service to our customers and contribute back to the community as a whole.

DIRECTORS' REPORT

The Board would like to present the annual report and the audited consolidated financial statements for the year ended 31 March 2018 (the "**Consolidated Financial Statements**").

PRINCIPAL BUSINESS

The Company is an investment holding company and the principal business of its major subsidiaries is set out in note 1 to the Consolidated Financial Statements.

BUSINESS REVIEW

A fair review of the Group's business as required under Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including the Group's performance analysis for the Year, particulars of important events affecting the Group that have occurred since the end of the Year, as well as the possible future business development of the Group, are set out in the "Chairman's Statement" on pages 4 to 5, in the "Management Discussion and Analysis" on pages 6 to 14 and "Directors' Report – Events After the End of the Year Under Review" on page 54.

Description of the Group's principal risk and uncertainties is set out in the paragraphs headed "Directors' Responsibilities for Financial Statements" on pages 28 to 29 under the "Corporate Governance Report". Discussions on environmental policies and performance, compliance by the Group with relevant laws and regulations that have a significant impact on the Group and the account of the key relationships of the Group with its stakeholders are set out in the "Environmental, Social and Governance Report" on pages 33 to 52 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "**SFO**") for the disclosure of information and corporate governance and other laws and regulations which are relevant to the Group's business operation.

RESULTS AND DIVIDENDS

The Group's results and consolidated statement of financial position for the Year are set out in the Consolidated Financial Statements on pages 75 to 77 of this annual report.

The Board recommended the payment of a final dividend of HK$0.16 per share, amounting to approximately HK$61,019,000 (equivalent to approximately RMB50,408,000) in total for the year ended 31 March 2018 to the shareholders of the Company whose names appear on the register of members of the Company as at Monday, 27 August 2018.

The payment of the proposed final dividend is subject to approval by shareholders of the Company at the annual general meeting for the Fiscal Year of 2018 (the "**AGM**"). The final dividend is expected to be paid to the shareholders of the Company on Friday, 7 September 2018.

EVENTS AFTER THE END OF THE YEAR UNDER REVIEW

In the announcement of the Company dated 22 March 2018 in relation to the Anhui Investment, it was disclosed, among other things, that the Company intended to construct new production plant in Bowang District, Ma'anshan, Anhui Province, the PRC through a wholly-owned subsidiary to be established at Bowang District, Ma'anshan, Anhui Province, the PRC. On 18 April 2018, Precision Tsugami (Anhui) Corporation, a wholly-owned subsidiary of the Company, has been established with registered capital of RMB50 million for the abovementioned purpose. Furthermore, Ma'anshan Land Resources Bureau* (馬鞍山國土資源局), as transferor, and Precision Tsugami (Anhui) Corporation, as transferee, entered into a land use right transfer agreement in respect of an acquisition of land use right of a parcel of land located at Bowang District, Ma'anshan, Anhui Province, the PRC at a consideration of RMB10.2 million on 7 June 2018.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment of the Group during the Year are set out in note 13 to the Consolidated Financial Statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 March 2018, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB364,632,000 (31 March 2017: approximately RMB329,468,000), including retained profits and share premium.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the Companies Law of the Cayman Islands which would require the Company to offer new shares on a pro rata basis to existing shareholders.

SHARE CAPITAL

The details of changes in the share capital of the Company are set out in note 26 to the Consolidated Financial Statements.

* *for identification purpose only*

DIRECTORS AND SERVICE AGREEMENTS

Executive Directors

Dr. Tang Donglei *(Chief Executive Officer)*
Mr. Yoshimasa Hashimoto

Non-executive Directors

Mr. Takao Nishijima *(Chairman)*
Ms. Mami Matsushita
Mr. Tatsushi Hidano *(Re-designated from executive Director with effect from 1 January 2018)*
Dr. Ng Lai Man Carmen

Independent Non-executive Directors

Dr. Huang Ping
Dr. Eiichi Koda
Mr. Tam Kin Bor

Details of Directors are set out under "Directors and Senior Management" section in this annual report.

The Company has entered into a service contract with each of the executive Directors and non-executive Directors. The Company has also entered into a letter of appointment with each of the independent non-executive Directors. The terms of office of Dr. Tang Donglei, Mr. Yoshimasa Hashimoto, Mr. Takao Nishijima, Ms. Mami Matsushita, Dr. Ng Lai Man Carmen, Dr. Huang Ping, Dr. Eiichi Koda and Mr. Tam Kin Bor are three years from 25 September 2017, while the term of office of Mr. Tatsushi Hidano is three years from 1 January 2018. Such appointments may only be terminated in accordance with the provisions of the service contract or letter of appointment (as the case may be), or by (i) the Company giving to any Director not less than three months' prior written notice or (ii) a Director giving to the Company not less than one month's prior written notice.

None of the Directors have entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than normal statutory compensation.

According to the article 16.18 of the articles of association of the Company, Mr. Yoshimasa Hashimoto, Mr. Tatsushi Hidano and Dr. Ng Lai Man Carmen will retire at the AGM by rotation and they have informed the Company that they will not offer themselves for re-election as they would like to devote more time to their other business commitments and engagements.

Subject to approval of the Shareholders at the AGM, the Board proposes to appoint Dr. Li Zequn as the executive Director and Mr. Nobuaki Takahashi as a non-executive Director to fill the vacancies of the retiring Directors, with effect from the date of the AGM.

The Company has received from all independent non-executive Directors an annual confirmation in respect of their respective independence pursuant to Rule 3.13 of the Listing Rules. Pursuant to these confirmations, the Company considers all independent non-executive Directors are independent.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register maintained by the Company referred to therein, or which will be required, pursuant to the Model Code (the "**Model Code**") for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Associated corporation (within the meaning of Part XV of the SFO) – Tsugami Japan

Name	Position	Long/short positions	Capacity	Number of shares held in the associated corporation	*Note*	Percentage of shareholding in the associated corporation
Takao Nishijima	Chairman and non-executive Director	Long position	Beneficial owner	10,000	*1*	0.02%

Note:

1. This represents the shares beneficially held by Mr. Takao Nishijima in his personal capacity.

Except as disclosed above, as at 31 March 2018, none of the Directors or chief executive of the Company was interested or deemed to be interested in the long and short positions in the shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) recorded in the register maintained by the Company as required pursuant to Section 352 of the SFO as aforesaid; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Substantial shareholders' interests or short positions in the shares and underlying shares of the Company

As at 31 March 2018, so far as any of the Directors or chief executive of the Company are aware, the following persons/entities had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which will have to be notified to the Company and the Stock Exchange pursuant to provisions of Divisions 2 and 3 of Part XV of the SFO or which ought to be recorded in the register of the Company required to be kept under section 336 of the SFO:

Name of substantial shareholder	Long/short positions	Capacity	Number of shares	*Note*	Percentage of issued shares
Tsugami Japan	Long position	Beneficial owner	270,000,000	*1*	70.80%

Note:

1. The 270,000,000 shares were beneficially owned by Tsugami Japan.

Except as disclosed above, as at 31 March 2018, the Directors and chief executive of the Company were not aware of any person/entity (other than the Directors or chief executive of the Company) who had, or deemed to have, an interest or short position in the shares or underlying shares of the Company which will have to be notified to the Company and the Stock Exchange pursuant to provisions of Divisions 2 and 3 of Part XV of the SFO or which ought to be recorded in the register of the Company required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

Pre-IPO Share Options

A. Summary

The Company adopted the Pre-IPO Share Option Scheme (the "**Scheme**") on 14 March 2014 to grant the Pre-IPO Share Options as incentive or reward and to attract, retain and motivate employees to contribute to the Group and/or strive for future development and expansion of the Group. The Scheme is summarised as follows:

A total of 55 eligible participants have been granted the Pre-IPO Share Options, eight among whom had left the Group as at the listing date and have ceased to be eligible employees under the Scheme. As such, the Pre-IPO Share Options granted to them for a total of 756,000 shares have lapsed. As at 31 March 2018, so far as the Company is aware, the Pre-IPO Share Options for a total of 7,870,000 shares were exercised in full.

Eligible participants of the Scheme comprise of two groups (collectively, the "**Grantees**"). At the time when the Scheme came into effect, members of group A consist of a maximum of 15 directors or chief executives in the Company and the Company's subsidiaries, and members of group B consist of a maximum of 50 full-time employees of the Group designated by Directors. The Scheme became effective on 14 March 2014 and share options were granted conditionally to the Grantees on the same date. The consideration for the share options granted to each Grantee was nil. Unless otherwise cancelled or amended by Directors, under which case no share option will be granted, the Scheme will remain in force for 10 years from that date. Details of the Scheme are as follows:

(a) the exercise period shall commence on the first anniversary of the date of offer to group A eligible persons and third anniversary of the date of offer to group B eligible persons;

(b) the subscription price for the shares under the Scheme will be fixed at HK$1.50 per share or such other price, which shall be no less than the nominal value of a share, as may be determined by the Board in its sole discretion, subject to any adjustment made in the manner as contemplated under the Scheme;

(c) the maximum number of shares in respect of the Pre-IPO Share Options will not exceed 5,000,000 shares for group A eligible persons and 5,000,000 shares for group B eligible persons;

(d) the right to exercise the Pre-IPO Share Options shall terminate immediately, among others, upon the date on which the Grantee ceases to be an eligible person for any reason, among others, summary dismissal or being dismissed for misconduct or other breach of the terms of his/her employment contract or other contract constituting him/her an eligible person under the Scheme;

(e) the Scheme is valid and effective for a period of ten years commencing on 14 March 2014, being the date on which the Scheme was adopted by the then sole Shareholder. The exercise period for the Pre-IPO Share Options granted to group A eligible persons and group B eligible persons are from 17 March 2015 to 16 March 2020 and 17 March 2017 to 16 March 2020, respectively. After the shares of the Company were listed on the main board of the Stock Exchange on 25 September 2017, no further options will be granted under the Scheme (no option was granted during the Reporting Period before the listing date) but in all other respects the provisions of the Scheme shall remain in full force and effect to the exercise of any options granted.

As at 15 January 2018 and 23 January 2018, the number of the Pre-IPO Share Options that had been exercised by the Grantees amounted to 3,180,000 shares and 4,690,000 shares, respectively. The full exercise of the Pre-IPO Share Options outstanding resulted in the issue of a total of 7,870,000 additional shares by the Company, representing in total approximately 2.1% of the issued share capital as at 31 March 2018.

B. Summary of Grantees

Details of the movements of the Pre-IPO Share Options of the Scheme during the Year are as follows:

Name of Grantee	Date of grant	Exercise price per share	Number of share options: Outstanding as at 1 April 2017	Granted during the Reporting Period	Exercised during the Reporting Period	Lapsed/ cancelled during the Reporting Period	Outstanding as at 31 March 2018	Exercise period for the share options
Tang Donglei (Executive director of the Company)	14 March 2014	HK$1.50	800,000	–	800,000	–	–	17 March 2015 to 16 March 2020
Wang Xiaojun (Employee of the Group) *(note 1)*	14 March 2014	HK$1.50	310,000	–	310,000	–	–	17 March 2015 to 16 March 2020
Yoshimasa Hashimoto (Executive Director of the Company)	14 March 2014	HK$1.50	150,000	–	150,000	–	–	17 March 2017 to 16 March 2020
Takao Nishijima (Non-executive Director of the Company)	14 March 2014	HK$1.50	1,100,000	–	1,100,000	–	–	17 March 2015 to 16 March 2020
Mami Matsushita (Non-executive Director of the Company)	14 March 2014	HK$1.50	550,000	–	550,000	–	–	17 March 2015 to 16 March 2020
Other employees	14 March 2014	HK$1.50	2,085,000	–	2,085,000	–	–	17 March 2015 to 16 March 2020
Other employees	14 March 2014	HK$1.50	2,875,000	–	2,875,000	–	–	17 March 2017 to 16 March 2020
			7,870,000	–	7,870,000 *(note 2)*	–	–	

Notes:

1. Ms. Wang Xiaojun is the spouse of Dr. Tang Donglei, and also one of the Grantees.

2. During the Year, the weighted average closing price of shares of the Company immediately preceding the exercise date of the Pre-IPO Share Options was HK$11.0.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreement that will or may result in the Company issuing Shares were entered into by the Company during the Year and subsisted at the end of the Year.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the disclosures under note 32 of the Consolidated Financial Statements and the section headed "Directors' Report – Continuing Connected Transactions", no transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director or the Controlling Shareholder of the Company or an entity connected with them had a material interest, whether directly or indirectly, subsisted during or at the end of the Year.

PERMITTED INDEMNITY PROVISION

Pursuant to the requirements of the articles of association of the Company and subject to applicable laws, every Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of duties of his/her office or otherwise in relation thereto provided that such indemnity shall not extend to any matter in respect of fraud or dishonesty which may attach to the Director. Such permitted indemnity provision is currently in force and has become effective during the Reporting Period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the Year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company or their respective spouses or children under 18 years of age or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONTINUING CONNECTED TRANSACTIONS

Tsugami Japan is the controlling shareholder of the Company and beneficially owns approximately 70.80% of the issued shares in the capital of the Company. Therefore, Tsugami Japan and its subsidiaries (other than the Group) ("**Tsugami Japan Group**") are connected persons of the Company under Chapter 14A of the Listing Rules.

During the year ended 31 March 2018, the following transactions between the Company and the Tsugami Japan Group constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

(1) Technology Licence Agreement

The Company entered into the Technology Licence Agreement on 4 September 2017 with Tsugami Japan, pursuant to which, Tsugami Japan agreed to irrevocably grant to the Company (i) an exclusive licence to use the technology necessary for the manufacture of the Company's CNC high precision machine tools and to provide after-sales services in connection with these products and (ii) as the sole licensee, the right to use the trademarks in the PRC, Hong Kong and Taiwan, and a non-exclusive licence to use the trademarks in any regions (excluding the PRC, Hong Kong and Taiwan).

The term of the Technology Licence Agreement commences from 25 September 2017 to 31 March 2020, which will be automatically renewed for a successive period of three years thereafter unless notified by the Company to Tsugami Japan by written notice of not less than 30 days before the expiry of the initial term or any subsequent successive periods or otherwise terminated earlier in accordance with the Technology Licence Agreement.

Depending on the models of the CNC high precision machine tools of the Company, the trademarks and technology licence fees payable to Tsugami Japan shall be calculated based on a royalty rate of 1.0% or 5.0% multiplied by the total sales of such models of CNC high precision machine tools (excluding tax and other miscellaneous costs and charges).

The aftersales services fees to be charged by Tsugami Japan will be determined based on the daily rate of approximately JPY46,000 multiplied by the total number of working days of the staff of Tsugami Japan.

(2) Master Sales Agreement

The Company entered into the Master Sales Agreement on 4 September 2017 with Tsugami Japan, pursuant to which, the Company sells CNC high precision machine tools to the Tsugami Japan Group.

The term of the Master Sales Agreement commences from 25 September 2017 to 31 March 2020, which will be automatically renewed for a successive period of three years thereafter unless terminated, among other matters, by either party with not less than 30 business days' prior written notice, subject to compliance of the Listing Rules.

The transactions contemplated under the Master Sales Agreement will be conducted in the ordinary and usual course of business of the Group and that of the Tsugami Japan Group on normal commercial terms or better and on terms which are fair and reasonable and in the interests of the Group and its shareholders as a whole. The consideration in respect of each definitive agreement under the Master Sales Agreement will be determined in line with similar products provided to the independent third parties.

The Company sold its CNC high precision machine tools, with or without customisations, to the Tsugami Japan Group. In determining the selling prices of the CNC high precision machine tools sold to the Tsugami Japan Group, the Company will consider factors including the level of customisations, time and effort required for making various specifications and/or customisations to the CNC high precision machine tools, purchase quantity, the delivery schedule, whether sales and marketing, aftersales services and technical support services are needed, etc. No special discount will be offered to the Tsugami Japan Group by virtue of the fact that the Tsugami Japan Group is a connected person of the Company. After taking into account the above factors, the Company will provide a quotation which is comparable to at least two transactions with independent third party customers for the same period.

(3) Master Purchase Agreement

The Company entered into the Master Purchase Agreement on 4 September 2017 with Tsugami Japan, pursuant to which, the Company may procure parts and components (including the relevant warranty costs in relation to the CNC system panels procured through Tsugami Japan), production machinery and equipment, and CNC high precision machine tools manufactured by the Tsugami Japan Group.

The term of the Master Purchase Agreement commences from 25 September 2017 to 31 March 2020, which will be automatically renewed for a successive period of three years thereafter unless terminated, among other matters, by either party with not less than 30 business days' prior written notice, subject to compliance of the Listing Rules.

The transactions contemplated under the Master Purchase Agreement will be conducted in the ordinary and usual course of business of the Group and that of the Tsugami Japan Group, on normal commercial terms or better and on terms which are fair and reasonable and in the interests of the Group and its shareholders as a whole.

In respect of the parts and components which are manufactured by the independent third party suppliers but procured from the Tsugami Japan Group (including the third-party components and CNC system panels for the CNC high precision machine tools sold or to be sold overseas (including in Taiwan)), such products are sold to the Company at cost incurred by the Tsugami Japan Group in purchasing such products from the independent third party suppliers plus certain handling and administrative charges.

In respect of the parts and components, production machinery and equipment and CNC high precision machine tools which are manufactured and uniquely designed for the Company's needs by the Tsugami Japan Group, such products are sold to the Company at cost incurred by the Tsugami Japan Group in developing and manufacturing such products plus certain handling and administrative charges.

The following table sets out the annual caps and approximate total actual transaction amounts during the Year in respect of these continuing connected transactions.

No.	Continuing connected transactions	Annual caps (RMB'000)	Approximate total actual transaction amounts (RMB'000)
1	Technology Licence Agreement	112,000	107,450
2	Master Sales Agreement	760,000	634,540
3	Master Purchase Agreement	350,000	294,982

For details of these continuing connected transactions, please refer to the announcement of the Company dated 22 January 2018, the circular of the Company dated 12 February 2018 and the Prospectus.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the above continuing connected transactions are (i) entered into in the ordinary and usual course of business of the Company; (ii) conducted on normal commercial terms; and (iii) conducted pursuant to the agreements governing the relevant transactions on terms which are fair and reasonable and in the interests of the Company and its shareholders as a whole. In determining the prices and terms of the above transactions conducted during the Year, the Company has complied with the pricing guideline and adopted internal control measures (please refer to the circular in relation to the respective transactions for details).

The Company's auditor was engaged by the Group to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, the auditor of the Company has provided a letter to the Board confirming that nothing has come to their attention to cause them to believe that the continuing connected transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

(iii) were not conducted, in all material respects, in accordance with the agreements governing the transactions; and

(iv) have exceeded the relevant caps.

A copy of the auditor's letter has been submitted by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

The details of the related party transactions of the Group for the year ended 31 March 2018 are set out in note 32 to the Consolidated Financial Statements.

The related party transactions disclosed in note 32(b) to the Consolidated Financial Statements constitute continuing connected transactions as defined under Chapter 14A of the Listing Rules and are therefore subject to the disclosable requirements under Chapter 14A of the Listing Rules.

Pursuant to Chapter 14A of the Listing Rules, the related party transactions disclosed in note 32(c) and (d) to the Consolidated Financial Statements are not deemed as connected transactions or continuing connected transactions.

During the Year, the Company has complied with the relevant provisions under Chapter 14A of the Listing Rules in the event that the related party transactions of the Group constitute the connected transactions or continuing connected transactions as defined under the Listing Rules.

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

On 13 October 2017, the over-allotment option described in the Prospectus was fully exercised by the Sole Global Coordinator in respect of an aggregate of 13,500,000 Shares at HK$5.60 per Share, representing 15% of the offer shares initially available under the global offering. During the period from the listing date and up to the date of this annual report, apart from the over-allotment option exercised on 13 October 2017 and the over-allotment shares issued on 16 October 2017 thereunder, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2018, the details of the transactions between the Group and its major suppliers and customers are as follows:

During the Year, the revenue from the top five customers of the Group accounted for approximately 48.0% of the total revenue of the Group (2017: 56.5%), while the revenue from the largest customer during the Year accounted for approximately 27.4% of the total revenue of the Group (2017: 33.5%).

During the Year, the purchases from the top five suppliers of the Group accounted for approximately 47.6% of the total purchases of the Group (2017: 44.8%), while the purchases from the largest supplier during the Year accounted for approximately 18.8% of the total purchases of the Group (2017: 28.2%).

During the Year, the largest customer of the Group was Tsugami Japan and its largest supplier is Tsugami Japan.

To the best knowledge of the Directors of the Company, except for Tsugami Japan Group, which is a connected person of the Company, none of the Directors of the Company and/or their respective close associates, or any existing shareholders who owned more than 5% of the number of issued shares of the Company, had any interest in any of the top five customers or suppliers during the Year.

EMPLOYEES

The Group had a total of 1,753 employees (2017: 1,454) as at 31 March 2018. The following table shows the breakdown of the Group's employees by responsibilities:

	As at 31 March 2018
Management	47
Finance	14
Procurement	17
Technology	116
Customer service	177
Quality verification	28
Operation	104
Manufacture	1,142
General personnel	37
Shinagawa Precision	71
Total	1,753

Total staff costs for the Year amounted to approximately RMB172,771,000 (2017: RMB131,549,000) and the details are set out in note 6 to the Consolidated Financial Statements. Remuneration for employees is based upon their qualification, experience, job nature, performance and market condition.

The Group has established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance, employment injury insurance, maternity insurance, employment liability insurance and group accident commercial insurance pursuant to the rules and regulations of the PRC and the existing policy requirements of the local government.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found during the Year.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a procurement.

The Group values the views and opinions of all customers through various means and channels, including the usage of market research, to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that quality products and services are offered to the customers.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year, none of the Directors of the Company and their close associates (within the meaning of the Listing Rules) are deemed to have any interests in any business which competes or is likely to compete, directly or indirectly, with the business of our Group that need to be disclosed under Rule 8.10 of the Listing Rules.

MANAGEMENT CONTRACTS

No material contracts in relation to the management and administration of all or any principal part of the business of the Company were entered into by the Group or were subsisting during the Year.

TAXATION OF HOLDERS OF SHARES

Hong Kong

The dealings in, sale and transfer of shares registered in the Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty. The current rate charged currently on each of the purchaser and the seller (or the transferee and the transferor) is 0.1% of the consideration or, if greater, the fair value of the shares purchased/sold or transferred (rounded up to HK$'000). In addition, a fixed duty of HK$5.00 is currently payable on an instrument of transfer of shares.

Profits from dealings in shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

Cayman Islands

Under the present Cayman Islands laws, transfers and/or otherwise dispositions of shares are exempt from Cayman Islands stamp duty.

Consultation with Professional Advisers

Potential holders and investors of the Company's shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications (including tax relief) of subscribing for, purchasing, holding, disposing of or dealing in shares. It is emphasised that none of the Company or its Directors or officers will accept any responsibility for any tax effect on, or liabilities of, holders of shares in the Company resulting from their subscription for, purchase, holding, disposal of or dealing in such shares.

Tax Relief

The Company is not aware of any tax relief for any holder of the Company's securities due to its unique securities.

PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Board, the Company has always maintained the prescribed public float under the Listing Rules of not less than 25% during the Reporting Period.

DEED OF NON-COMPETITION

The Company entered into a deed of non-competition ("**Deed of Non-competition**") with the Controlling Shareholder on 4 September 2017 so as to better safeguard the Group from any potential competition and to formalize the principles for the management of potential conflicts between them and to enhance the Group's corporate governance in connection with the listing of the shares of the Company on the Stock Exchange.

The Company has received a declaration from the Controlling Shareholder confirming that it has complied with the non-competition undertaking during the year ended 31 March 2018. The Controlling Shareholder and its close associates have confirmed that they have no interest in the business that has or may have direct or indirect competition with the Group's business during the Year, except for the business of the Group.

During the Year, the Competition Executive Committee comprising two disinterested Directors has inspected the compliance with and performance of the terms of the Deed of Non-competition by the Controlling Shareholder and its close associates.

During the Year, the Competition Supervisory Committee comprising three independent non-executive Directors has reviewed the status of compliance by the Controlling Shareholder with the Deed of Non-competition including the review of the inspection findings of the Competition Executive Committee. The Competition Supervisory Committee reported its review results to the Board, which reveals that the Controlling Shareholder has complied with and performed each term of the Deed of Non-competition.

ANNUAL GENERAL MEETING

The forthcoming AGM of the Company will be held in Hong Kong on Monday, 20 August 2018. 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 Wednesday, 15 August 2018 to Monday, 20 August 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible for the right to attend and vote at the forthcoming AGM, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 14 August 2018. In addition, the register of members of the Company will be closed from Friday, 24 August 2018 to Monday, 27 August 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to be eligible for the proposed final 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 23 August 2018.

FOUR-YEAR FINANCIAL SUMMARY

The summary of the Group's results, assets and liabilities for the latest four financial years is set out on page 144 of this annual report.

BANK LOANS

Details of the Group's bank loans are set out in note 23 to the Consolidated Financial Statements.

RESERVES

The changes in the reserves of the Group during the Year are set out in note 27 to the Consolidated Financial Statements.

AUDITOR

The resolution on the reappointment of Ernst & Young as the auditor of the Company will be proposed at the forthcoming AGM.

By Order of the Board

Precision Tsugami (China) Corporation Limited
Takao Nishijima
Chairman and Non-executive Director

Hong Kong, 27 June 2018

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22/F, CITIC Tower
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Central, Hong Kong

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To the shareholders of Precision Tsugami (China) Corporation Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Precision Tsugami (China) Corporation Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 75 to 143, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Provision for slow-moving and obsolete inventories	
The gross balance of inventories as at 31 March 2018 was RMB512 million, against which provision for slow-moving and obsolete inventories amounting to RMB8 million was made. Inventory balances comprise of raw materials, work in progress and finished goods. The Group's management reviews the inventory age listing to identify slow-moving and obsolete inventories and then estimates the amount of provision. The determination of provision for slow-moving and obsolete inventories requires management to exercise judgement in identifying slow-moving and obsolete inventories and make estimates of the appropriate level of provision required. This process also involves management to estimate the projected excessive quantity of those inventories considering the production plan and expected future market demand as a result of changes in current market conditions and technology, and the latest invoice prices. We focused on this area because it requires a high level of management judgement and the amounts involved are significant. Related disclosures are included in notes 2, 3 and 17 to the consolidated financial statements.	We discussed with management to understand management's assessment of the provision for slow-moving and obsolete inventories. We examined the management's assessment by observing the inventory count and the physical condition of the inventories at the end of the reporting period; and checking the accuracy of the inventory age listing, the basis of planned consumption by comparing to the historical and subsequent consumption, the subsequent sales transactions of inventories after the year end, on a sample basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong

27 June 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2018

	Notes	Year ended 31 March 2018 RMB'000	2017 RMB'000
REVENUE	*5*	**2,314,215**	1,636,281
Cost of sales		**(1,842,099)**	(1,345,080)
GROSS PROFIT		**472,116**	291,201
Other income and gains	*5*	**8,453**	3,957
Selling and distribution expenses		**(98,303)**	(76,846)
Administrative expenses		**(71,293)**	(41,527)
Other expenses		**(29,794)**	(3,795)
Finance costs	*7*	**(10,466)**	(13,060)
PROFIT BEFORE TAX	*6*	**270,713**	159,930
Income tax expense	*10*	**(76,623)**	(47,364)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**194,090**	112,566
ATTRIBUTABLE TO:			
Owners of the parent		**194,090**	112,566

	Notes	Year ended 31 March 2018 RMB	2017 RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*12*	**0.57**	0.38
Diluted	*12*	**0.57**	0.37

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 March 2018

		As at 31 March	
		2018	2017
	Notes	**RMB'000**	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**324,741**	342,221
Prepaid land lease payments	*14*	**32,906**	33,802
Intangible assets	*15*	**3,644**	2,840
Deferred tax assets	*25*	**7,428**	5,381
Total non-current assets		**368,719**	384,244
CURRENT ASSETS			
Inventories	*17*	**503,542**	479,875
Trade and bills receivables	*18*	**614,443**	387,295
Prepayments, deposits and other receivables	*19*	**17,279**	15,491
Pledged deposits	*20*	**12,758**	6,930
Cash and cash equivalents	*20*	**321,760**	123,903
Total current assets		**1,469,782**	1,013,494
CURRENT LIABILITIES			
Trade and bills payables	*21*	**456,416**	358,277
Other payables and accruals	*22*	**176,748**	83,347
Tax payable		**26,485**	18,713
Interest-bearing bank loans and other borrowings	*23*	**–**	274,529
Provision	*24*	**11,132**	8,483
Total current liabilities		**670,781**	743,349
NET CURRENT ASSETS		**799,001**	270,145
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,167,720**	654,389

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

Year ended 31 March 2018

	Notes	As at 31 March 2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*25*	**3,925**	2,492
Total non-current liabilities		**3,925**	2,492
Net assets		**1,163,795**	651,897
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*26*	**320,312**	–
Reserves	*27*	**843,483**	651,897
Total equity		**1,163,795**	651,897

Tang Donglei
Director

Yoshimasa Hashimoto
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

	Attributable to owners of the parent						
	Issued capital RMB'000 *Note 26*	**Merger reserve* RMB'000** *Note 27*	**Share premium reserve* RMB'000** *Note 27*	**Share option reserve* RMB'000** *Note 28*	**Statutory reserve fund* RMB'000** *Note 27*	**Retained profits* RMB'000**	**Total RMB'000**
1 April 2016	**–**	**(39,964)**	**329,406**	**8,943**	**54,330**	**212,738**	**565,453**
Total comprehensive income for the year	–	–	–	–	–	112,566	112,566
Equity-settled share option arrangements	–	–	–	512	–	–	512
Dividends distribution	–	–	–	–	–	(26,634)	(26,634)
Transfer from retained profits	–	–	–	–	9,551	(9,551)	–
At 31 March 2017 and at 1 April 2017	**–**	**(39,964)**	**329,406**	**9,455**	**63,881**	**289,119**	**651,897**
Total comprehensive income for the year	–	–	–	–	–	194,090	194,090
Transfer of share premium to issued capital	251,760	–	(251,760)	–	–	–	–
Issue of share capital	62,056	–	259,264	–	–	–	321,320
Equity-settled share option arrangements	6,496	–	13,042	(9,455)	–	–	10,083
Dividends distribution	–	–	–	–	–	(13,595)	(13,595)
Transfer from retained profits	–	–	–	–	17,909	(17,909)	–
At 31 March 2018	**320,312**	**(39,964)**	**349,952**	**–**	**81,790**	**451,705**	**1,163,795**

* These reserve accounts comprise the consolidated reserves of RMB843,483,000 (2017: RMB651,897,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2018

		Year ended 31 March	
		2018	2017
	Notes	**RMB'000**	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**270,713**	159,930
Adjustments for:			
Finance costs	*7*	**10,466**	13,060
Interest income	*5*	**(1,588)**	(516)
Net loss on disposal of items of property, plant and equipment	*5 & 6*	**15,171**	1,155
Depreciation	*6*	**41,642**	41,230
Recognition of prepaid land lease payments	*6*	**896**	896
Amortisation of intangible assets	*6*	**505**	327
Equity-settled share option expenses		**–**	512
		337,805	216,594
Increase in pledged deposits for bills payable		**(5,828)**	(6,930)
(Increase)/decrease in inventories		**(23,667)**	28,261
Increase in trade and bills receivables		**(227,148)**	(273,245)
Increase in prepayments, deposits and other receivables		**(1,788)**	(5,541)
Increase in trade and bills payables		**98,139**	234,423
Increase in other payables and accruals		**93,401**	26,850
Increase in provisions		**2,649**	372
Cash generated from operations		**273,563**	220,784
Income taxes paid		**(69,465)**	(37,884)
Net Cash Flows From Operating Activities		**204,098**	182,900

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CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

Year ended 31 March 2018

		Year ended 31 March	
		2018	2017
	Notes	**RMB'000**	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,588**	516
Purchases of items of property, plant and equipment		**(40,134)**	(9,785)
Proceeds from disposal of items of property, plant and equipment		**801**	109
Purchase of items of intangible assets		**(1,309)**	(936)
Net Cash Flows Used In Investing Activities		**(39,054)**	(10,096)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*26*	**331,403**	–
New interest-bearing bank loans and other borrowings		**298,135**	121,970
Repayment of interest-bearing bank loans and other borrowings		**(572,664)**	(225,064)
Dividends paid		**(13,595)**	(26,634)
Interest paid		**(10,466)**	(15,266)
Net Cash Flows From/(Used In) Financing Activities		**32,813**	(144,994)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**197,857**	27,810
Cash and cash equivalents at beginning of year		**123,903**	96,093
CASH AND CASH EQUIVALENTS AT END OF YEAR		**321,760**	123,903
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	*20*	**321,760**	123,903

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's subsidiaries were involved in the following principal activities:

- manufacture and sale of computer numerical control ("**CNC**") high precision machine tools; and
- provision of commercial consultation services.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Tsugami Corporation, which is incorporated in Japan and listed on Tokyo Stock Exchange.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Date and place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Subsidiaries					
Precision Tsugami (Hong Kong) Limited *(note(a))* ("**Tsugami HK**")	24 September 2013 Hong Kong, China	HK$767,718,112	100	–	Investment holding
津上精密机床(浙江) 有限公司 *(note(b))* Precision Tsugami (China) Corporation* ("**PTC**")	11 September 2003 Zhejiang, China	US$78,700,000	–	100	Manufacture and sale of high precision CNC machine tools
浙江品川精密机械有限公司 *(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
平湖津上諮詢有限公司 *(note(b))* Tsugami China Consultants Co., Limited* ("**Tsugami Consultants**")	18 June 2012 Zhejiang, China	RMB1,000,000	–	100	Commercial information consultation

Notes:

* The English names of the subsidiaries registered in the People's Republic of China ("**PRC**") represent the best efforts made by 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 IFRSs, which comprise all standards and interpretations approved by the IASB and International Accounting Standards ("**IASs**") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("**RMB**") 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 2018. 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 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).

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 relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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 above. 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 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 IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 29 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the financial statements:

Amendments to IFRS 1 included in *Annual Improvements 2014-2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[1]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 3 included in *Annual Improvements 2015-2017 Cycle*	*Business Combinations*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IFRS 11 included in *Annual Improvements 2015-2017 Cycle*	*Joint Arrangements*[2]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IAS 12 included in *Annual Improvements 2015-2017 Cycle*	*Income Taxes*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 23 included in *Annual Improvements 2015-2017 Cycle*	*Borrowing Costs*[2]
Amendments to IAS 28 included in *Annual Improvements 2014-2016 Cycle*	*Investments in Associates and Joint Ventures*[1]
Amendments to IAS 40	*Transfers of Investment Property*[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for early adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 April 2018. The Group performed a high-level assessment of the impact of adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 April 2018. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e., when "**control**" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 15 on the Group. Based on the preliminary assessment, the Group anticipates that the adoption of IFRS 15 in the future is unlikely to have a significant impact on the revenue recognition.

IFRS 16 replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

As at 31 March 2018, the Group had undiscounted operating lease commitments of RMB6,385,000 as set out in note 30 to the financial statements. The directors do not expect the adoption of IFRS 16 would result in a significant impact on the Group's results but it is expected that a certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, inventories, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.50-9.00%
Plant and machinery	9.00%
Instruments and tools	18.00%
Furniture, fixtures and office equipment	18.00-30.00%
Motor vehicles	18.00-22.50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plants or machinery under construction, which are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Golf membership

Purchased membership is stated at cost less any impairment losses and assessed for impairment at each year end.

Software

Purchased software copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three to five years.

Licence

Purchased licence is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of five years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. A research and development cost which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals and interest-bearing bank loans and other borrowings.

Subsequent measurement

After initial recognition, interest-bearing bank loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labours and an appropriate proportion of overheads based on the normal operating capacity. Net realisable value is based on estimated selling prices less estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income to match the grant on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, in the period in which the services are rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees and for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Binomial Valuation Model, further details of which are given in note 28 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

The cost of equity-settled transactions is recognised in an employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 27.9% to 44.5% of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 11 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgement, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in future periods.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distribution of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

(ii) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. The carrying amount of property, plant and equipment carried in the consolidated statement of financial position as at 31 March 2018 was RMB324,741,000 (2017: RMB342,221,000), details of which are set out in note 13.

(iii) Impairment of trade receivables

The provision policy for impairment of trade receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. The carrying amount of trade receivables carried in the consolidated statement of financial position as at 31 March 2018 was RMB236,130,000 (2017: RMB190,542,000), details of which are set out in note 18.

(iv) Impairment of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date. The carrying amount of inventories carried in the consolidated statement of financial position as at 31 March 2018 was RMB503,542,000 (2017: RMB479,875,000), details of which are set out in note 17.

(v) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profit together with future tax planning strategies. The carrying amount of deferred tax assets carried in the consolidated statement of financial position as at 31 March 2018 was RMB7,428,000 (2017: RMB5,381,000), details of which are set out in note 25.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

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

Revenue information based on the locations of customers is presented below:

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Mainland China	**1,646,629**	1,041,620
Overseas	**667,586**	594,661
	2,314,215	1,636,281

Information about major customers

Revenue from an individual customer which amounted to more than 10% of the Group's revenue is set out below:

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Customer A *(Note 32(b))*	**619,631**	531,637

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold after allowances for returns, trade discounts and various types of government surcharges.

An analysis of the Group's revenue, other income and gains is as follows:

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Revenue		
Sale of goods	**2,311,052**	1,636,149
Rendering of services	**3,163**	132
	2,314,215	1,636,281
Other income and gains		
Bank interest income	**1,588**	516
Gain on disposal of items of property, plant and equipment	**159**	113
Government grants *(note (a))*	**5,326**	3,134
Compensation income	**793**	–
Gain on foreign exchange	**24**	–
Others	**563**	194
	8,453	3,957

Note (a) The amount represents grants received from local PRC government authorities by the Group's subsidiaries in connection with certain financial support to local business enterprises for the purpose of encouraging business development. There are no unfulfilled conditions and other contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

Group

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Cost of inventories sold	**1,842,099**	1,345,080
Employee benefit expense (including directors' remuneration as set out in note 8):		
Wages and salaries	**149,906**	113,945
Pension scheme contributions	**9,773**	7,669
Social security contributions and accommodation benefits	**13,092**	9,935
Share option expenses	**–**	512
Interest on interest-bearing bank loans and discounted bills *(note 7)*	**10,466**	13,060
Auditor's remuneration		
– Statutory audit	**1,200**	–
– Listing fees expensed off	**1,719**	1,694
Loss on disposal of items of property, plant and equipment	**15,330**	1,268
Depreciation *(note 13)*	**41,642**	41,230
Recognition of prepaid land lease payments *(note 14)*	**896**	896
Amortisation of intangible assets *(note 15)**	**505**	327
Foreign exchange loss, net	**11,471**	2,061
Minimum lease payments under operating leases	**4,002**	2,330

* The amortisation of intangible assets is included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

Group

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Finance costs		
Interest on interest-bearing bank loans	**5,645**	11,418
Interest on discounted bills	**4,821**	1,642
	10,466	13,060

8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Group

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Fees	**2,335**	1,850
Other emoluments:		
Salaries, allowances and benefits in kind	**2,914**	2,789
Equity-settled share option expense	**–**	66
	5,249	4,705

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Dr. Huang Ping	**317**	351
Dr. Eiichi Koda	**317**	351
Mr. Tam Kin Bor	**317**	117
Dr. Ng Lai Man Carmen	**–**	165
	951	984

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

8. DIRECTORS' REMUNERATION (Continued)

Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
Year ended 31 March 2018				
Executive directors:				
– Mr. Yoshimasa Hashimoto	–	392	–	392
Non-executive directors:				
– Mr. Takao Nishijima	–	–	–	–
– Ms. Mami Matsushita	231	–	–	231
– Mr. Tatsushi Hidano	–	613	–	613
– Dr. Ng Lai Man Carmen	1,153	–	–	1,153
Chief executive:				
– Dr. Tang Donglei	–	1,909	–	1,909
	1,384	2,914	–	4,298

8. DIRECTORS' REMUNERATION (Continued)

Executive directors, non-executive directors and the chief executive (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
Year ended 31 March 2017				
Executive directors:				
– Mr. Tatsushi Hidano	–	883	–	883
– Mr. Yoshimasa Hashimoto	–	180	66	246
Non-executive directors:				
– Mr. Takao Nishijima	–	–	–	–
– Ms. Mami Matsushita	216	–	–	216
– Dr. Ng Lai Man Carmen	650	–	–	650
Chief executive:				
– Dr. Tang Donglei	–	1,726	–	1,726
	866	2,789	66	3,721

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no executive directors, non-executive directors or the chief executive waived or agreed to waive any emoluments and no emoluments were paid by the Group to the executive directors, non-executive and the chief executive as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2017: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration during the year remaining three (2017: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

An analysis of the five highest paid employees within the Group during the year is as follows:

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,230**	3,971
Equity-settled share option expense	**–**	202
	3,230	4,173

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 March	
	2018	2017
HK$1,000,001 to HK$2,000,000	**3**	4
	3	4

During the year, no directors or highest individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the non-director and highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

10. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the 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.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries of the Group.

The major components of income tax expense are as follows:

Group

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Current tax	**77,237**	46,897
Deferred tax *(note 25)*	**(614)**	467
Total tax charge for the year	**76,623**	47,364

10. INCOME TAX EXPENSE (Continued)

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

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Profit before tax	**270,713**	159,930
Tax at the statutory tax rate	**67,678**	39,982
Expenses not deductible for tax	**3,652**	3,352
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**5,934**	4,030
Others	**(641)**	–
Total tax charge at the Group's effective rate	**76,623**	47,364

11. DIVIDENDS

The dividends declared and paid by the Company to Tsugami Corporation, the Controlling Shareholder during the year are as follows:

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Dividends to the Controlling Shareholder	**13,595**	26,634

On 27 June 2018, the Board of the Group declared the payment of a final dividend of HK$0.16 per share, amounting to HK$61,019,000 (equivalent to approximately RMB50,408,000) for the year ended 31 March 2018. The proposed final dividend is subject to the approval by shareholders of the Company at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

As of 31 March 2018, the Company had 381,370,000 ordinary shares in issue. On 4 September 2017, a total number of 299,999,997 capital reserves was converted to equity.

On 25 September 2017, the Company issued 60,000,000 new shares upon listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

On 16 October 2017, a total number of 13,500,000 shares was issued by the Company at HK$5.6 per share upon the exercise of over-allotment share options granted to the relevant underwriter in connection with the Global Offering. The additional gross proceeds received by the Company in connection with the over-allotment share issue were approximately HK$75,600,000.

On 15 January 2018 and 23 January 2018, the exercise in full of the outstanding share options resulted in the issue of 7,870,000 additional shares of the Company (note 28).

The Group had no potentially dilutive ordinary shares in issue as at 31 March 2018.

The calculations of earnings per share attributable to ordinary equity holders of the Company for the years ended 31 March 2018 and 2017 are based on the following data:

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**194,090**	112,566
Shares		
Number of shares on 1 April 2017	**3**	3
Effect of Capital reserves converted to equity on 4 September 2017	**299,999,997**	299,999,997
Effect of shares issued on 25 September 2017	**30,904,110**	–
Effect of over-allotment share options on 13 October 2017	**6,287,671**	–
Effect of exercise of the share options on 15 January 2018 and 23 January 2018	**1,535,890**	–
Number of shares for the purpose of basic earnings per share calculation	**338,727,671**	300,000,000
Effect of dilution – weighted average number of ordinary shares: Share options	**–**	6,651,508
Number of shares for the purpose of diluted earnings per share calculation	**338,727,671**	306,651,508

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Instruments and tools RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 31 March 2017 and 1 April 2017	231,531	287,714	12,496	5,528	5,607	1,854	544,730
Additions	2,678	14,226	1,722	413	936	20,159	40,134
Transfers	–	1,825	–	–	–	(1,825)	–
Disposals	(17,873)	(2,490)	(311)	(512)	(379)	–	(21,565)
At 31 March 2018	216,336	301,275	13,907	5,429	6,164	20,188	563,299
Accumulated depreciation:							
At 31 March 2017 and 1 April 2017	59,763	126,016	8,548	4,431	3,751	–	202,509
Charge for the year	13,266	25,787	1,432	453	704	–	41,642
Disposals	(2,717)	(1,816)	(277)	(453)	(330)	–	(5,593)
At 31 March 2018	70,312	149,987	9,703	4,431	4,125	–	238,558
Net carrying amount:							
At 31 March 2017	171,768	161,698	3,948	1,097	1,856	1,854	342,221
At 31 March 2018	146,024	151,288	4,204	998	2,039	20,188	324,741

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings RMB'000	Plant and machinery RMB'000	Instruments and tools RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 31 March 2016 and 1 April 2016	230,496	286,899	11,388	5,391	5,305	30	539,509
Additions	3,552	2,154	1,147	499	516	1,917	9,785
Transfers	–	85	–	8	–	(93)	–
Disposals	(2,517)	(1,424)	(39)	(370)	(214)	–	(4,564)
At 31 March 2017	231,531	287,714	12,496	5,528	5,607	1,854	544,730
Accumulated depreciation:							
At 31 March 2016 and 1 April 2016	48,847	101,540	6,659	4,301	3,232	–	164,579
Charge for the year	13,079	25,071	1,924	463	693	–	41,230
Disposals	(2,163)	(595)	(35)	(333)	(174)	–	(3,300)
At 31 March 2017	59,763	126,016	8,548	4,431	3,751	–	202,509
Net carrying amount:							
At 31 March 2016	181,649	185,359	4,729	1,090	2,073	30	374,930
At 31 March 2017	171,768	161,698	3,948	1,097	1,856	1,854	342,221

14. PREPAID LAND LEASE PAYMENTS

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Carrying amount at beginning of the year	**34,699**	35,595
Additions	**–**	–
Recognised during the year	**(896)**	(896)
Carrying amount at end of the year	**33,803**	34,699
Current portion, included in prepayments, deposits and other receivables *(note 19)*	**(897)**	(897)
Non-current portion	**32,906**	33,802

15. INTANGIBLE ASSETS

Group

	Golf membership RMB'000	Software RMB'000	Licence RMB'000	Total RMB'000
Cost:				
At 31 March 2017 and 1 April 2017	1,330	1,895	307	3,532
Additions	–	1,309	–	1,309
Disposal	–	(181)	–	(181)
At 31 March 2018	1,330	3,023	307	4,660
Accumulated amortisation:				
At 31 March 2017 and 1 April 2017	–	385	307	692
Amortisation	–	505	–	505
Disposal	–	(181)	–	(181)
At 31 March 2018	–	709	307	1,016
Net book value:				
At 31 March 2017	1,330	1,510	–	2,840
At 31 March 2018	1,330	2,314	–	3,644

15. INTANGIBLE ASSETS (Continued)

Group

	Golf membership RMB'000	Software RMB'000	Licence RMB'000	Total RMB'000
Cost:				
At 31 March 2016 and 1 April 2016	1,330	1,140	307	2,777
Additions	–	936	–	936
Disposal	–	(181)	–	(181)
At 31 March 2017	1,330	1,895	307	3,532
Accumulated amortisation:				
At 31 March 2016 and 1 April 2016	–	294	252	546
Amortisation	–	272	55	327
Disposal	–	(181)	–	(181)
At 31 March 2017	–	385	307	692
Net book value:				
At 31 March 2016	1,330	846	55	2,231
At 31 March 2017	1,330	1,510	–	2,840

16. INVESTMENT IN A SUBSIDIARY

Company

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Unlisted investments, at cost	**561,494**	328,399

17. INVENTORIES

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Raw materials	**184,384**	193,205
Work in progress	**183,932**	164,687
Finished goods	**135,226**	121,983
	503,542	479,875

18. TRADE AND BILLS RECEIVABLES

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Trade receivables*	**236,130**	190,542
Bills receivable	**378,313**	196,753
	614,443	387,295

* Trade receivables include trade receivables from the Controlling Shareholder and other related parties (note 32).

18. TRADE AND BILLS RECEIVABLES (Continued)

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 overdue balances are reviewed regularly and actively monitored by senior management to minimise credit risk.

Trade receivables are unsecured and non-interest-bearing.

Ageing analysis by invoice date

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

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Within 3 months	**201,653**	169,239
3 months to 6 months	**34,477**	21,303
	236,130	190,542

Trade receivables not individually nor collectively impaired

An ageing analysis of the trade receivables that are not considered to be individually nor collectively impaired is as follows:

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Neither past due nor impaired	**235,566**	190,266
Past due but not impaired	**564**	276
	236,130	190,542

18. TRADE AND BILLS RECEIVABLES (Continued)

Trade receivables not individually nor collectively impaired (Continued)

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at the end of each reporting period, none of the bills receivable is either past due or impaired. The financial assets included in the above balances relate to bills receivable for which there was no recent history of default.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Prepayments	**12,543**	11,959
Current portion of prepaid land lease payments *(note 14)*	**897**	897
Deposits and other receivables	**3,839**	2,635
	17,279	15,491

Company

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Prepayments, deposits and other receivables	**–**	1,768

Prepayments, deposits and other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Cash and bank balances	**334,518**	130,833
Less: Pledged deposits for bills payable	**(12,758)**	(6,930)
Cash and cash equivalents	**321,760**	123,903
Denominated in RMB	**190,046**	97,788
Denominated in JPY	**1,406**	20,118
Denominated in US$	**–**	1
Denominated in HK$	**143,066**	12,926
Cash and bank balances and pledged deposits	**334,518**	130,833

Company

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Cash and bank balances	**141,693**	11,911
Cash and cash equivalents	**141,693**	11,911
Denominated in HK$	**176,840**	13,417

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. TRADE AND BILLS PAYABLES

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Trade payables*	**334,322**	289,437
Bills payable	**122,094**	68,840
	456,416	358,277

* Trade payables include trade payables to the Controlling Shareholder (note 32).

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	
	2018	2017
	RMB'000	RMB'000
Within 3 months	**334,235**	289,437
Over 3 months	**87**	–
	334,322	289,437

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

22. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Payroll and welfare accruals	**16,033**	13,656
Accruals	**14,087**	9,906
Other payables	**34,262**	11,154
Advances from customers	**112,366**	48,631
	176,748	83,347

Company

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Accruals	**4,430**	–
Other payables*	**9,048**	3,094
	13,478	3,094

* Other payables are unsecured, non-interest-bearing and repayable on demand.

23. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Current		
Discounted bills with recourse	**–**	17,498
Bank loans, unsecured	**–**	257,031
	–	274,529
Bank loans and other borrowings bear interest at rates per annum in the range of	**4.35%-4.39%**	2.10%-4.39%
Repayable within one year or on demand	**–**	274,529

24. PROVISION

	Product warranties RMB'000
At 31 March 2017 and 1 April 2017	8,483
Additional provision charged to profit or loss during the year	11,360
Amounts utilised during the year	(8,711)
At 31 March 2018	**11,132**
Analysis of total provisions	
Current	11,132
Non-current	–
	11,132

The Group mainly provides one year warranties to its customers on certain of its precision CNC machine, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

25. DEFERRED TAX

The following are the deferred tax assets and deferred tax liabilities recognised and the movements therein during the year:

Group

Deferred tax assets	**Accruals** RMB'000	**Inventory provision** RMB'000	**Tax losses** RMB'000	**Total** RMB'000
Deferred tax assets at 31 March 2017 and 1 April 2017	3,658	1,723	–	5,381
Deferred tax credited to profit or loss during the year	1,524	434	89	2,047
Deferred tax assets at 31 March 2018	**5,182**	**2,157**	**89**	**7,428**

Deferred tax liabilities	**Withholding tax** RMB'000
Deferred tax liabilities at 31 March 2017 and 1 April 2017	2,492
Deferred tax credited to profit or loss during the year	1,433
Deferred tax liabilities at 31 March 2018	**3,925**

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 March 2018, the aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB406,588,000 (2017: RMB268,137,000). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

26. ISSUED CAPITAL

Shares

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Authorised: 1,000,000,000 ordinary shares of HK$1.00 each	**1,000,000**	15,000

	As at 31 March	
	2018	2017
	HK$'000	HK$'000
Issued and fully paid: 381,370,000 ordinary shares of HK$1.00 each	**381,370**	–

The Company was incorporated in the Cayman Islands as a company with limited liability on 2 July 2013 with an authorised share capital of HK$350,000 divided in 350,000 shares of HK$1.00 par value each. On 2 July 2013, the initial member transferred the one issued share of HK$1.00 in the Company to the Controlling Shareholder.

By an equity transfer agreement entered into between the Controlling Shareholder and the Company dated 12 December 2013, the entire equity interest in PTC was transferred by the Controlling Shareholder, which was settled by the Company issuing one share to the Controlling Shareholder.

On 14 March 2014, the Company increased the authorised share capital to HK$15,000,000 divided into 15,000,000 shares of HK$1.00 par value each.

On 15 May 2014, one share was allotted and issued to the Controlling Shareholder in consideration of RMB30,661,000 (US$5,000,000) paid by the Controlling Shareholder.

On 4 September 2017, the Company increased the authorised share capital to HK$1,000,000,000 divided into 1,000,000,000 shares of HK$1.00 par value each. The Company converted its HK$299,999,997 share premium reserve into 299,999,997 shares of HK$1.00 par value each.

The Company issued 60,000,000 new shares at the price of HK$5.6 per share, by way of capitalization of an aggregate amount of approximately HK$250,406,266 out of the share premium account of the Company, in connection with the initial listing of the Company's shares on the Main Board of the Stock Exchange on 25 September 2017. On 16 October 2017, a total number of 13,500,000 shares was issued by the Company at HK$5.6 per share upon the exercise of over-allotment share options granted to the relevant underwriters in connection with the Global Offering, by way of capitalization of an aggregate amount of approximately HK$56,760,925 out of the share premium account of the Company.

26. ISSUED CAPITAL (Continued)

The subscription rights attaching to 7,870,000 share options were exercised at the subscription price of HK$1.50 per share (note 28), resulting in the issue of 7,870,000 shares for a total cash consideration, before expenses, of HK$11,805,000. An amount of HK$ 11,865,750 was transferred from the share option reserve to share premium reserve upon the exercise of the share options.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period is presented in the consolidated statements of changes in equity of the financial statements.

Merger reserve

The merger reserve represents those reserves arising from the reorganization for the purpose of listing. Details of the movements in the merger reserve are set out in the consolidated statement of changes in equity.

Share premium reserve

The share premium reserve represents the excess of the paid-in capital over the nominal value of the Company's shares issued in exchange therefor.

Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

Statutory reserve fund

In accordance with the relevant PRC regulations applicable to wholly-foreign-owned companies, certain entities within the Group are required to allocate a certain portion (not less than 10%), as determined by their boards of directors, of their profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "**SRF**") until such reserve reaches 50% of the registered capital.

The SRF is non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as issued capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

28. SHARE OPTION SCHEME

Pre-IPO stock plan

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include two groups. Group A consists of a maximum of 15 directors or chief executives, including independent non-executive directors in the Company and the Company's subsidiaries. Group B consists of a maximum of 50 full-time employees in the Company and the Company's subsidiaries designated by directors. The Scheme became effective on 14 March 2014 and, unless otherwise cancelled or amended by directors, under which case no share option will be granted, will remain in force for 10 years from that date.

The following share options were outstanding under the Scheme during the year.

	Year ended 31 March			
	2018		2017	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At beginning of the year	**1.5**	**7,870**	1.5	8,626
Forfeited during the year		**–**		(756)
Exercised during the year		**(7,870)**		–
At end of the year		**–**	1.5	7,870

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018 and 2017

	Number of options '000	**Exercise price HK$ per share**	**Exercise period**
Group A	4,845	1.5	17 March 2015 to 16 March 2020
Group B	3,025	1.5	17 March 2017 to 16 March 2020
	7,870		

28. SHARE OPTION SCHEME (Continued)

Pre-IPO stock plan (Continued)

The fair value of the share options granted during the year ended 31 March 2014 for Group A was HK$7,509,750 (HK$1.55 each), and for Group B was HK$5,444,640 (HK$1.44 each). The total fair values amounted to HK$12,954,390, of which the Group recognised no share option expense (2017: RMB512,000) during the year ended 31 March 2018.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a Binomial Valuation Model, taking into account the terms and conditions upon which the options were granted. The following table lists the key inputs to the model used:

Expected dividend yield (%)	5.74%
Expected volatility (%)	49.296%
Risk-free interest rate (%)	1.432%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

On 15 January 2018 and 23 January 2018, the eligible participants were in exercise the number of 3,180,000.00 options and the number of 4,690,000.00 options respectively. The exercise in full of the outstanding share options resulted in the issue of HK$7,870,000 additional shares of the Company and additional share capital and share premium of HK$11,805,000.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other borrowings RMB'000
At 1 April 2017	274,529
Changes from financing cash flows	(274,529)
At 31 March 2018	–

30. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to five years.

As at 31 March 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Within one year	**4,442**	1,643
In the second to fifth year, inclusive	**1,943**	1,207
	6,385	2,850

31. CAPITAL COMMITMENTS

The Group had the following capital commitments as at 31 March 2018:

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**77,100**	2,520

32. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name of related party	Relationship with the Group
Tsugami Corporation	The Controlling Shareholder
Tsugami Korea Co., Ltd.	Company controlled by the Controlling Shareholder

(b) Apart from the transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Note	Year ended 31 March 2018 RMB'000	2017 RMB'000
Sales of goods to			
Tsugami Corporation *(Note 4)*	*(i)*	**619,631**	531,637
Tsugami Korea Co., Ltd.	*(i)*	**14,909**	16,693
		634,540	548,330
Purchases of materials from			
Tsugami Corporation	*(i)*	**286,554**	319,779
Licence fee to			
Tsugami Corporation	*(i)*	**106,342**	74,110
Service fee to			
Tsugami Corporation	*(i)*	**9,536**	16,536

Note:

(i) The sales to and purchases from related parties were made and the licence fee and service fee were paid to related party according to prices mutually agreed after taking into account the prevailing market prices.

32. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with related parties

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Amount due from the Controlling Shareholder		
Tsugami Corporation		
Trade receivables	**73,892**	53,397
Amount due from a company controlled by the Controlling Shareholder		
Tsugami Korea Co., Ltd.		
Trade receivables	**2,398**	4,163
Amounts due to the Controlling Shareholder		
Tsugami Corporation		
Trade payables	**64,900**	87,248
Other payables	**50**	–
	64,950	87,248

Company

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Amount due to a subsidiary		
PTC	**4,765**	61

The amounts due from/to related companies are interest-free, unsecured and repayable on demand.

32. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel

Group

	Year ended 31 March	
	2018	2017
	RMB'000	RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**4,130**	3,978
Equity-settled share option expense	**–**	132
	4,130	4,110

Further details of directors' emoluments are included in note 8 to the financial statements.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The table below is an analysis of the carrying amounts of financial instruments by category as at the end of the reporting period are as follows:

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Trade and bills receivables	**614,443**	387,295
Financial assets included in prepayments, deposits and other receivables	**3,839**	2,635
Pledged deposits	**12,758**	6,930
Cash and cash equivalents	**321,760**	123,903
	952,800	520,763

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Group (Continued)

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and bills payables	**456,416**	358,277
Financial liabilities included in other payables and accruals	**34,262**	11,154
Interest-bearing bank loans and other borrowings	**–**	274,529
	490,678	643,960

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals and interest-bearing bank loans and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, other interest-bearing loans, and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the reporting period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank loans and other borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

Group

	Increase/(decrease) on profit before tax As at 31 March	
	2018	2017
	RMB'000	RMB'000
Increase by 100 basis points	**–**	(2,570)
Decrease by 100 basis points	**–**	2,570

Foreign currency risk

The Group has transactional currency exposures. Such exposures mainly arise from sales, purchases or borrowings by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity as at 31 March 2017 and 2018 to a reasonably possible change in the foreign exchange rates due to changes in fair value of monetary assets and liabilities, with all other variables held constant, of the Group's profit before tax.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

	Change in foreign currency rate	Increase/ (decrease) in profit before tax
	%	RMB'000
31 March 2017		
If RMB weakens against JPY	5%	1,005
If RMB strengthens against JPY	5%	(1,005)
If RMB weakens against US$	5%	(103)
If RMB strengthens against US$	5%	103
31 March 2018		
If RMB weakens against JPY	**5%**	**278**
If RMB strengthens against JPY	**5%**	**(278)**
If RMB weakens against US$	**5%**	**(32)**
If RMB strengthens against US$	**5%**	**32**
If RMB weakens against HK$	**5%**	**7,133**
If RMB strengthens against HK$	**5%**	**(7,133)**

Credit risk

The Group trades only with related parties and recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Concentrations of credit risk are managed by customer. At the end of each reporting period, the Group had certain concentrations of credit risk as 43.5% and 54.35% of the Group's trade receivables were due from the Group's Controlling Shareholder and the largest third-party customer as at 31 March 2017 and 2018.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	On demand RMB'000	Within 1 year RMB'000	Within 2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
31 March 2017					
Trade and bills payables	–	358,277	–	–	358,277
Financial liabilities included in other payables and accruals	11,154	–	–	–	11,154
Interest-bearing bank loans and other borrowings	–	277,355	–	–	277,355
	11,154	635,632	–	–	646,786
31 March 2018					
Trade and bills payables	**–**	**456,329**	**87**	**–**	**456,416**
Financial liabilities included in other payables and accruals	**34,262**	**–**	**–**	**–**	**34,262**
	34,262	**456,329**	**87**	**–**	**490,678**

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Company

	On demand	Within 1 year	Within 2 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 March 2017					
Amount due to a subsidiary	61	–	–	–	61
Other payables and accruals	3,094	–	–	–	3,094
	3,155	–	–	–	3,155
31 March 2018					
Amount due to a subsidiary	**4,765**	**–**	**–**	**–**	**4,765**
Other payables and accruals	**9,048**	**–**	**–**	**–**	**9,048**
	13,813	**–**	**–**	**–**	**13,813**

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a net debt to equity ratio. The Group's net debt consists of interest-bearing bank loans and other borrowings less cash and cash equivalents. Capital represents total equity.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

During the year, the Group's strategy was to maintain the net debt to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The net debt to equity ratios at as at 31 March 2017 and 2018 are as follows:

Group

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
Interest-bearing bank loans and other borrowings	**–**	274,529
Less: Cash and cash equivalents	**(321,760)**	(123,903)
Net debt	**N/A**	150,626
Total equity	**1,163,795**	651,897
Net debt to equity ratio	**N/A**	23.11%

36. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the Board Resolution on 11 April 2018, Precision Tsugami (China) Corporation set up a new subsidiary in Anhui Province, China and the proposed name is Precision Tsugami (Anhui) Co., Ltd. (proposed company name: 安徽津上精密機床有限公司) on 18 April 2018. The new subsidiary established with a registered capital of RMB50 million. Its principal activity is manufacturing computerised numerical control high precision machine tools. Furthermore, Ma'anshan Land Resources Bureau* (馬鞍山國土資源局), as transferor, and Precision Tsugami (Anhui) Corporation, as transferee, entered into a land use right transfer agreement in respect of an acquisition of land use right of a parcel of land located at Bowang District, Ma'anshan, Anhui Province, the PRC at a consideration of RMB10.2 million on 7 June 2018.

* *for identification purpose only*

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	As at 31 March	
	2018	2017
	RMB'000	RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	**561,494**	328,399
CURRENT ASSETS		
Prepayments, deposits and other receivables	**–**	1,768
Cash and cash equivalents	**141,693**	11,911
	141,693	13,679
CURRENT LIABILITIES		
Amount due to a subsidiary	**4,765**	61
Other payables and accruals	**13,478**	3,094
	18,243	3,155
NET CURRENT ASSETS	**123,450**	10,524
TOTAL ASSETS LESS CURRENT LIABILITIES	**684,944**	338,923
Net assets	**684,944**	338,923
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**320,312**	–
Reserves	**364,632**	338,923
Total equity	**684,944**	338,923

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserve is as follows:

	Issued capital	Share premium reserve	Share option reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1 April 2016	–	329,406	8,943	(4,132)	334,217
Total comprehensive Income for the year	–	–	–	30,828	30,828
Equity-settled share option arrangement	–	–	512	–	512
Dividends Distribution	–	–	–	(26,634)	(26,634)
At 31 March 2017 and 1 April 2017	–	329,406	9,455	62	338,923
Transfer of share to issued capital	251,760	(251,760)	–	–	–
Issue of share capital	62,056	259,264	–	–	321,320
Equity-settled share option arrangement	6,496	13,042	(9,455)	–	10,083
Dividends Distribution	–	–	–	(13,595)	(13,595)
Transfer from retained profits	–	–	–	28,213	28,213
At 31 March 2018	320,312	349,952	–	14,680	684,944

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 June 2018.

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from the published audited financial statements, is set out below.

RESULTS

	Year ended 31 March			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**2,314,215**	1,636,281	1,357,465	2,057,730
Cost of sales	**(1,842,099)**	(1,345,080)	(1,140,356)	(1,649,734)
GROSS PROFIT	**472,116**	291,201	217,109	407,996
Other income and gains	**8,453**	3,957	11,922	18,746
Selling and distribution expenses	**(98,303)**	(76,846)	(68,199)	(88,396)
Administrative expenses	**(71,293)**	(41,527)	(47,225)	(60,988)
Other expenses	**(29,794)**	(3,795)	(17,078)	(3,098)
Finance costs	**(10,466)**	(13,060)	(18,311)	(20,961)
PROFIT BEFORE TAX	**270,713**	159,930	78,218	253,299
Income tax expense	**(76,623)**	(47,364)	(22,410)	(75,004)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**194,090**	112,566	55,808	178,295
ATTRIBUTABLE TO:				
Owners of the parent	**194,090**	112,566	55,808	178,295

CONSOLIDATED ASSETS AND LIABILITIES

	Year ended 31 March			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,838,501**	1,397,738	1,145,472	1,395,064
TOTAL LIABILITIES	**(674,706)**	(745,841)	(580,019)	(869,432)
TOTAL EQUITY	**1,163,795**	651,897	565,453	525,632