PRECISION TSUGAMI (CHINA) CORPORATION LIMITED

津上精密機床(中國)有限公司

(Incorporated in the Cayman Islands with limited liability) | Stock Code : 1651

INTERIM REPORT 2018

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 of 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 (the "**Prospectus**").

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INTERIM RESULTS REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of Precision Tsugami (China) Corporation Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 September 2018 (the "**Period under Review**") together with the unaudited comparative figures for the corresponding period in 2017. Such results have been reviewed by the external auditor Ernst & Young and the audit committee of the Company.

RESULTS HIGHLIGHTS

	For the six months ended 30 September		
	2018 RMB'000, except for percentages (unaudited)	2017 RMB'000, except for percentages (unaudited)	Period-on-period increase %
Revenue	**1,642,510**	1,198,559	37.0%
Gross profit	**413,528**	234,606	76.3%
Gross profit margin	**25.2%**	19.6%	5.6%
Profit before tax	**292,855**	141,635	106.8%
Profit attributable to shareholders of the Company	**219,309**	100,999	117.1%
Net profit margin	**13.4%**	8.4%	5.0%
Basic earnings per share (RMB)	**0.58**	0.33	75.8%

- For the Period under Review, the Group maintained the great momentum in sales performance from the previous financial year. Sales amounted to approximately RMB1,642,510,000, representing an increase of approximately 37.0% as compared to the same period last year.

- During the Period under Review, the Group reached a gross profit of approximately RMB413,528,000, representing an increase of approximately 76.3% as compared to the same period last year.

- During the Period under Review, the net profit of the Group amounted to approximately RMB219,309,000, representing an increase of approximately 117.1% as compared to the same period last year.

- Basic earnings per share amounted to approximately RMB0.58, representing an increase of approximately 75.8% as compared to the same period last year.

CORPORATE INFORMATION

Executive Directors
Dr. Tang Donglei *(Chief Executive Officer)*
Dr. Li Zequn
(appointed on 20 August 2018)

Non-executive Directors
Mr. Takao Nishijima *(Chairman)*
Ms. Mami Matsushita
Mr. Nobuaki Takahashi
(appointed on 20 August 2018)

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

Company Secretary
Ms. Wong Wai Yee Ella

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

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

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

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
Eversheds Sutherland
21/F, Gloucester Tower,
The Landmark
15 Queen's Road Central
Hong Kong

Principal Place of Business
China Region
No. 2001 Pingcheng Road
Pinghu Economic and Technology
Development District
Zhejiang Province, 314200
PRC

Hong Kong Region
21/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Principal Share Registrar
Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

Hong Kong Branch Share Registrar
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2018, the Group maintained the great momentum in sales performance from the previous financial year. Sales amounted to approximately RMB1,642,510,000, representing an increase of approximately 37.0% as compared to the same period last year.

During the Period under Review, the Group reached a gross profit of approximately RMB413,528,000, representing an increase of approximately 76.3% as compared to the same period last year while the net profit of the Group amounted to approximately RMB219,309,000, representing an increase of approximately 117.1% as compared to the same period last year.

Basic earnings per share amounted to approximately RMB0.58.

According to the information published by National Bureau of Statistics of China, gross domestic product (GDP) of China had a stable increase of 6.8% during the first half of 2018 which indicated an overall steady economic development in China. During the first quarter of the financial year, CNC high precision machine tool market continues to maintain the strong market demand from the previous financial year. However, the demand on small vertical machining centre had decreased significantly as compared to the same period last year due to the adjustment to the production for smartphone related products. During the second quarter of the financial year, there was a downward trend in the manufacturing industry of China resulting from the tensed trading relationship between China and the US which brought up certain impact on the entire economic situation.

Under the abovementioned circumstances, the Group still obtained satisfying operating results by leveraging on its advanced technology, branding effect and the efforts of the sales force. Moreover, the outstanding orders from the previous financial year also contributed to the production lines constantly operating in their full capacity.

At the beginning of the financial year, the Group enhanced its productivity to a certain extent by recruiting more employees and making improvement to the bottleneck process. For the supply shortage of certain key parts and components from a certain supplier since the third quarter of the previous financial year, the Group endeavored to work closely with such supplier while actively seeking goods supply from other suppliers at the same time. The Group minimized the negative impact arising thereof through flexible adjustment to the production within the production plants and kept maintaining competitive edge in short lead times compared to other competitors.

FINANCIAL REVIEW

Revenue

During the six months ended 30 September 2018, total revenue increased by approximately 37.0%, or approximately RMB443,951,000, from approximately RMB1,198,559,000 for the same period last year to approximately RMB1,642,510,000. Such increase was primarily the results of (i) the Company has been accelerating the market expansion of its main products, precision lathes, and has made remarkable progress during the Period under Review, with sales amounting to approximately RMB1,408,413,000, representing an increase of approximately 45.6%; and (ii) other machines like precision grinding machines also saw considerable increases and achieved sales of approximately RMB86,430,000, representing an increase of approximately 49.7% as compared to the same period last year.

The increase in the Group's revenue was partially offset by the decrease in revenue of its precision machining centres from approximately RMB110,442,000 for the same period last year to approximately RMB69,894,000 for the Period under Review, primarily as a result of the decrease in demand of such machines tools for smartphone related product industry in China.

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

	Six months ended 30 September 2018	**Proportion (%)**	Six months ended 30 September 2017	Proportion (%)	**Period-on-period increase/ (decrease) (%)**
Precision lathes	**1,408,413**	**85.7%**	967,547	80.8%	**45.6%**
Precision machining centres	**69,894**	**4.3%**	110,442	9.2%	**(36.7)%**
Precision grinding machines	**86,430**	**5.3%**	57,723	4.8%	**49.7%**
Precision thread and form rolling machines	**7,936**	**0.5%**	4,987	0.4%	**59.1%**
Others	**69,837**	**4.2%**	57,860	4.8%	**20.7%**
Total	**1,642,510**	**100%**	1,198,559	100%	**37.0%**

Gross Profit and Gross Profit Margin

During the six months ended 30 September 2018, gross profit increased by approximately 76.3% to approximately RMB413,528,000 as compared to the same period last year; the overall gross profit margin increased by approximately 5.6 percentage points to approximately 25.2% as compared to approximately 19.6% from the same period last year, mainly due to (i) the Group's continued business expansion and economies of scale resulting from the increase in sales volume; and (ii) the Group's continued promotion to enhance production efficiency to reduce costs.

Other Income and Gains

Other income and gains of the Group primarily consist of bank interest income, gain on disposal of items of property, plant and equipment, government grants, compensation income, foreign exchange gains and others. During the six months ended 30 September 2018, other income and gains increased by approximately RMB12,672,000 to approximately RMB13,696,000 primarily due to the increases in foreign exchange gains by approximately RMB11,044,000, bank interest income by approximately RMB1,228,000 and government grants, compensation income by approximately RMB310,000.

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 Period under Review, selling and distribution expenses of the Group increased by approximately 21.3% as compared to the same period last year to approximately RMB61,772,000, representing approximately 3.7% of the Group's revenue for the same period. Such increase was attributable mainly to the increase in selling and distribution expenses along with the sharp rise in revenue during the Period under Review.

Administrative Expenses

Administrative expenses primarily consist of salaries and benefits for management, administrative and financial personnel, administrative costs, customisation and development expenses, depreciation expenses relating to property, plant and equipment used for administrative purposes, amortisation expenses for the management information systems, and other taxes and levies.

During the Period under Review, administrative expenses increased by approximately 120% as compared to the same period last year to approximately RMB71,347,000, representing 4.3% of the Group's revenue for the same period, mainly due to the increase in customisation and development expenses and staff salaries and benefits.

Other Expenses

Other expenses primarily include foreign exchange losses, losses on the disposal of fixed assets and others. During the Period under Review, other expenses increased by approximately 68.2% as compared to the same period of 2017 to approximately RMB1,250,000, mainly due to the increase in losses on the disposal of fixed assets.

Finance Costs

During the Period under Review, finance costs were nil (for the same period of 2017: approximately RMB9,921,000), which was mainly due to the repayment of all bank borrowings with proceeds from the initial public offering in the third quarter of 2017. The Company did not discount any bank acceptance bills during the Period under Review, therefore the interests on bank borrowings and bank discounting bills were nil.

Income Tax Expenses

During the Period under Review, income tax expenses increased by approximately 81.0% as compared to the same period of 2017 to approximately RMB73,546,000, mainly due to the significant increase in revenue and profit before tax.

Profit for the Period

As a result of the factors described above, the Group's profit for the period increased by approximately 117.1% from approximately RMB100,999,000 for the six months ended 30 September 2017 to approximately RMB219,309,000 for the six months ended 30 September 2018.

Liquidity, Financial Resources and Debt Structure

During the Period under Review, the Group continued to maintain a healthy and solid liquidity position by adopting a prudent financial management approach on its financing and treasury policies. As at 30 September 2018, total cash and cash equivalents of the Group amounted to approximately RMB227,511,000 (as at 31 March 2018: approximately RMB321,760,000). Such decrease was mainly due to the proceeds received from the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") being gradually used for the investment as specified initially in the Prospectus and the investment on the Anhui plant project.

As at 30 September 2018, the Group's cash and cash equivalents were mainly held in Renminbi and partly held in Japanese yen (JPY), US dollars and Hong Kong dollars.

As at 30 September 2018, the Group recorded net current assets of approximately RMB925,326,000 (as at 31 March 2018: approximately RMB799,001,000) and its current ratio, calculated by dividing total current assets by total current liabilities, was approximately 2.3 times (as at 31 March 2018: approximately 2.2 times). Capital expenditures for the six months ended 30 September 2018 amounted to approximately RMB52,903,000, which was mainly utilised to finance the addition of factory buildings and mechanical equipment.

Bank loans, which are used for 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 30 September 2018 and 31 March 2018, the Group has no outstanding bank loans and discounted bills with recourse. As at 30 September 2018 and 31 March 2018, the Group did not have any bank loans and other borrowings and therefore had no applicable gearing ratio, calculated by dividing total bank loans and other borrowings by total equity.

Capital Commitments

As at 30 September 2018, the Group had capital commitments contracted but not provided amounting to approximately RMB12,077,000 (as at 31 March 2018: approximately RMB77,100,000).

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 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 established at Bowang District, Ma'anshan, Anhui Province, the PRC. As at the date of this report, the total investment amount from the Anhui Investment is expected to be approximately RMB200,000,000. On 18 April 2018, Precision Tsugami (Anhui) Corporation, a wholly-owned subsidiary of the Company, has been established with registered capital of RMB50,000,000 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 RMB10,200,000 on 7 June 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 Period under Review.

Charge on Assets

As at 30 September 2018, apart from the bank deposits of approximately RMB20,599,000 (as at 31 March 2018: approximately RMB12,758,000) 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.

Contingent Liabilities

As at 30 September 2018, the Group had no material contingent liabilities.

* *For identification purpose only*

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 its procurement from the Controlling Shareholder in Renminbi instead of JPY.

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

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. From the listing date of the Company and up to 30 September 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)	**Utilized amount during the Reporting Period**	**Unutilized amount as at 30 September 2018**	**Planned amount to be utilized during the six months ended 31 March 2019**	**Planned amount to be utilized during the year ended 31 March 2020**
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Rebuilding and renovating part of the Group’s production plant four	42.4	42.4	–	–	–
Purchasing and replacing production machinery and equipment for the Group’s Pinghu production plants	17.4	16.3	1.1	1.1	–
Expanding the Group’s sales network and increasing the Group’s market penetration in the PRC	1.7	1.7	–	–	–
Repaying the Group’s bank loans	266.2	266.2	–	–	–

In order to keep the Company's long-term development plans and further enhance the Group's production capacities, the expected costs to completion for rebuilding and renovating part of the Group's production plant four will exceed the initial budgets. 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.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the Prospectus and this report, the Group did not have any future plans for material investments or capital assets as at 30 September 2018.

Employees and Remuneration Policy

As at 30 September 2018, the Group employed 1,755 employees (as at 31 March 2018: 1,753), of whom 21 were transferred employees from the Controlling Shareholder. The Group's staff costs (including salaries, bonuses, social insurance and provident funds) amounted to approximately RMB108,302,000 in aggregate (including Directors' emoluments) (2017: RMB83,194,000), representing approximately 6.6% of total revenue of the Group during the Period under Review.

The Group offers attractive remuneration packages, including competitive fixed salaries plus performance-based annual bonuses, and continuously provides tailored training 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.

OUTLOOK

Since trade frictions between China and the US have evolved into a long-term trend, the impact, both psychologically and substantively, on China's manufacturing industry has gradually surfaced. Under such circumstances, the management of the Group holds a prudent attitude for next year.

However, the management of the Group believes that, the transformation and upgrade of the Chinese economy as well as the CNC machine tools market will continue to accelerate this major trend without any change. As a business operating in the Chinese market for fifteen years, the Group has established a solid foundation in terms of the layout of sales outlets and the construction of production system, both insourcing and outsourcing-wise. Therefore, the management of the Group remains confident in the mid- and long-term development.

The Group will place more emphasis on enhancing its capabilities, further adjusting production system, increasing production efficiency, lowering costs and improving product quality. The Group will also continue to expand and adjust the layout of sales outlets, increase the number of sales agency outlets, venture into new industries and seek new customers. The Group will continue to invest resources into new products and new technology, diversify its product lines and create new opportunities for growth.

Given the need for mid- and long-term development, the Group will continue the construction of the two plants of production plant four and put them into operation in the next financial year as planned. The Group will continue the infrastructure construction of the new plant located in Anhui Province and make appropriate adjustments to the timing for its actual operation depending on actual market conditions.

The Group will further improve its operational and financial performance in order to strengthen and expand its leading position in the industry and strive to create satisfactory returns for the shareholders of the Company.

EVENTS AFTER THE END OF THE PERIOD UNDER REVIEW

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

INTERIM DIVIDENDS

The Board declared the payment of an interim dividend of HK$0.20 per share for the six months ended 30 September 2018 (2017: nil) to the shareholders of the Company whose names appear on the register of members of the Company as at Thursday, 13 December 2018, the payment of which is expected to be made on or around Friday, 21 December 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the period from Tuesday, 11 December 2018 to Thursday, 13 December 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible for the interim dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 10 December 2018.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the six months ended 30 September 2018.

OTHER INFORMATION

PUBLIC FLOAT

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

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

As at 30 September 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:

(I) The Company

Name of Director	Position	Long/short positions	Capacity	Number of shares held	*Note*	Percentage of issued shares
Tang Donglei	Chief executive officer and executive Director	Long position	Beneficial owner	150,000	*1*	0.03%

Note:

1. This represents the shares beneficially held by Dr. Tang Donglei in his personal capacity.

(II) 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 30 September 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 30 September 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 30 September 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

The Pre-IPO share options granted by the Company for a total of 7,870,000 shares in accordance with the Pre-IPO Share Option Scheme adopted by the Company on 14 March 2014 have been exercised in full during the previous financial year. During the period from 1 April 2018 to the date of this report, the Company did not have any subsisting share option scheme.

CHANGES IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

The changes in information of the Directors during the period from 1 April 2018 to the date of this report is set out as follows:

After the conclusion of the annual general meeting of the Company dated 20 August 2018 (the "**AGM**"), (i) Mr. Yoshimasa Hashimoto has retired from the position as an executive Director; (ii) Mr. Tatsushi Hidano has retired from the position as a non-executive Director; and (iii) Dr. Ng Lai Man Carmen has retired from the position as a non-executive Director and ceased to be a member of the competition executive committee of the Company and an authorised representative of the Company appointed pursuant to Rule 3.05 of the Listing Rules. Moreover, three of them 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.

Since 20 August 2018, upon the approval by the shareholders of the Company at the AGM, (i) Dr. Li Zequn was appointed as an executive Director; and (ii) Mr. Nobuaki Takahashi was appointed as a non-executive Director. On the same day, Dr. Li Zequn was also appointed as a member of the competition executive committee of the Company; and Mr. Tam Kin Bor was appointed as an authorised representative of the Company.

For further details, please refer to the circular and announcement of the Company dated 20 July 2018 and 20 August 2018, respectively.

Save as disclosed above, as of the date of this report, there has been no change in the information of the Directors and the chief executives of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

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

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

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed the Group's unaudited condensed consolidated interim financial results for the six months ended 30 September 2018 including the accounting principles and standards adopted by the Group and discussed with the management in respect of the auditing, risk management, internal control and financial information. At the request of the Board, the Company's external auditor, Ernst & Young, has carried out a review of the unaudited condensed consolidated interim financial results in accordance with Hong Kong Standard on Review Engagement 2410 issued by the Hong Kong Institute of Certified Public Accountants.

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

INDEPENDENT REVIEW REPORT

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

INTRODUCTION

We have reviewed the accompanying interim financial information set out on pages 16 to 36, which comprises the condensed consolidated statement of financial position of Precision Tsugami (China) Corporation Limited (the "**Company**") and its subsidiaries (the "**Group**") as at 30 September 2018 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**") issued by the International Accounting Standards Board (the "**IASB**"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("**HKSRE 2410**") issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
12 November 2018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Notes	For the six months ended 30 September 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
REVENUE	*4*	**1,642,510**	1,198,559
Cost of sales		**(1,228,982)**	(963,953)
GROSS PROFIT		**413,528**	234,606
Other income and gains	*4*	**13,696**	1,024
Selling and distribution expenses		**(61,772)**	(50,904)
Administrative expenses		**(71,347)**	(32,427)
Other expenses		**(1,250)**	(743)
Finance costs		**–**	(9,921)
PROFIT BEFORE TAX	*5*	**292,855**	141,635
Income tax expense	*6*	**(73,546)**	(40,636)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**219,309**	100,999
ATTRIBUTABLE TO:			
Owners of the parent		**219,309**	100,999

	Notes	For the six months ended 30 September 2018 RMB	2017 RMB
EARNINGS PER SHARE (EPS)			
Basic, profit for the period attributable to ordinary equity holders of the parent	*8*	**0.58**	0.33
Diluted, profit for the period attributable to ordinary equity holders of the parent	*8*	**0.58**	0.33

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Notes	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**355,904**	324,741
Prepaid land lease payments		**42,789**	32,906
Intangible assets		**3,904**	3,644
Deferred tax assets		**8,325**	7,428
Total non-current assets		**410,922**	368,719
CURRENT ASSETS			
Inventories		**604,533**	503,542
Trade and bills receivables	10	**774,451**	614,443
Prepayments, deposits and other receivables		**16,590**	17,279
Pledged deposits		**20,599**	12,758
Cash and cash equivalents		**227,511**	321,760
Total current assets		**1,643,684**	1,469,782
CURRENT LIABILITIES			
Trade and bills payables	11	**552,127**	456,416
Other payables and accruals		**55,535**	176,748
Contract liabilities		**58,999**	–
Tax payable		**37,928**	26,485
Provision		**13,769**	11,132
Total current liabilities		**718,358**	670,781
NET CURRENT ASSETS		**925,326**	799,001
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,336,248**	1,167,720

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 September 2018

	Notes	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**6,579**	3,925
Total non-current liabilities		**6,579**	3,925
Net assets		**1,329,669**	1,163,795
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**320,312**	320,312
Reserves		**1,009,357**	843,483
Total equity		**1,329,669**	1,163,795

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Attributable to owners of the parent						
	Issued capital RMB'000	**Merger reserve* RMB'000**	**Share premium reserve* RMB'000**	**Share option reserve* RMB'000**	**Statutory reserve fund* RMB'000**	**Retained profits* RMB'000**	**Total RMB'000**
At 1 April 2018	**320,312**	**(39,964)**	**349,952**	**–**	**81,790**	**451,705**	**1,163,795**
Impact of adopting IFRS 15 *(note 2.2)*	**–**	**–**	**–**	**–**	**–**	**(410)**	**(410)**
At 1 April 2018 (Unaudited)	**320,312**	**(39,964)**	**349,952**	**–**	**81,790**	**451,295**	**1,163,385**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**219,309**	**219,309**
Dividends distribution	**–**	**–**	**–**	**–**	**–**	**(53,025)**	**(53,025)**
At 30 September 2018	**320,312**	**(39,964)**	**349,952**	**–**	**81,790**	**617,579**	**1,329,669**

	Attributable to owners of the parent						
	Issued capital RMB'000	Merger reserve* RMB'000	Share premium reserve* RMB'000	Share option reserve* RMB'000	Statutory reserve fund* RMB'000	Retained profits* RMB'000	Total RMB'000
At 1 April 2017	–	(39,964)	329,406	9,455	63,881	289,119	651,897
Profit for the period	–	–	–	–	–	100,999	100,999
Transfer of share premium to issued capital	251,760	–	(251,760)	–	–	–	–
Issue of share capital	50,670	–	211,912	–	–	–	262,582
Dividends distribution	–	–	–	–	–	(13,595)	(13,595)
At 30 September 2017	302,430	(39,964)	289,558	9,455	63,881	376,523	1,001,883

* These reserve accounts comprise the consolidated reserves of RMB1,009,357,000 and RMB699,453,000 in the condensed consolidated statements of financial position as at 30 September 2018 and 2017, respectively.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	For the six months ended 30 September	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**292,855**	141,635
Adjustments for:		
Finance costs	**–**	9,921
Interest income	**(1,969)**	(741)
Impairment of trade receivables	**36**	–
Net loss/(gain) on disposal of items of property, plant and equipment	**317**	(43)
Depreciation *(note 9)*	**20,838**	20,691
Recognition of prepaid land lease payments	**519**	447
Amortisation of intangible assets	**371**	227
	312,967	172,137
Increase in pledged deposits for bills payable	**(7,841)**	(5,457)
(Increase)/decrease in inventories	**(99,688)**	17,469
(Increase)/decrease in trade and bills receivables	**(161,893)**	81,222
Decrease in prepayments, deposits and other receivables	**900**	596
Increase in trade and bills payables	**95,711**	6,635
(Decrease)/increase in other payables and accruals	**(121,213)**	11,659
Increase in contract liabilities	**58,999**	–
Increase in provision	**2,637**	1,972
Cash generated from operations	**80,579**	286,233
Income taxes paid	**(60,210)**	(34,220)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**20,369**	252,013
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**1,969**	741
Purchases of items of property, plant and equipment	**(52,903)**	(8,292)
Proceeds from disposal of items of property, plant and equipment	**585**	422
Additions to intangible assets	**(631)**	(479)
Payments for prepaid land lease payments	**(10,613)**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(61,593)**	(7,608)

Continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the six months ended 30 September 2018

	For the six months ended 30 September 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	**–**	262,582
New interest-bearing bank loans and other borrowings	**–**	281,342
Repayment of interest-bearing bank loans and other borrowings	**–**	(531,498)
Dividends paid	**(53,025)**	(13,595)
Interest paid	**–**	(9,952)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(53,025)**	(11,121)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(94,249)**	233,284
Cash and cash equivalents at beginning of period	**321,760**	123,903
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**227,511**	357,187
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	**227,511**	357,187

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

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 P.O. Box 309, Ugland House, Grand Cayman KY 1-1104, Cayman Islands.

The Company is an investment holding company. The Group primarily engages in the following principal activities during the period:

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

In the opinion of the directors of the Company, the ultimate holding company of the Company is Tsugami Corporation (the "**Controlling Shareholder**"), a Japanese company incorporated in March 1937 whose shares are listed on the Tokyo Stock Exchange.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of presentation

The unaudited interim condensed consolidated financial statements, which comprise the interim condensed consolidated statement of financial position of the Group as at 30 September 2018 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months period then ended, have been prepared in accordance with International Accounting Standards ("**IAS**") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2018.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretation and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2018, except for the adoption of the amendments effective as of 1 April 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, International Financial Reporting Standards ("**IFRS**") 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations have been applied for the first time from 1 April 2018, but did not have an impact on the interim condensed consolidated financial statements of the Group.

2.2.1 IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018, bringing together all the three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting. IFRS 9 is not applicable to items that have already been derecognised at 1 January 2018, the date of initial application.

The Group has applied IFRS 9 retrospectively from 1 April 2018, the date of initial application, and chose not to adjust the comparative information for the period beginning 1 April 2017. Therefore, the comparative information for the year ended 31 March 2018 was reported under IAS 39 and is not comparable to the information presented for the six months ended 30 September 2018.

(a) Classification and measurement

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "**SPPI criterion**").

The Group has assessed that its financial assets currently measured at amortised cost and FVPL to be continued with their respective classification and measurements as of 1 April 2018.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretation and amendments adopted by the Group (Continued)

2.2.1 IFRS 9 Financial Instruments (Continued)

(a) Classification and measurement (Continued)

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 did not result in a significant impact on the impairment allowances for the Group's debt financial assets.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretation and amendments adopted by the Group (Continued)

2.2.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and the related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this transition method, the Group has elected to apply IFRS 15 retrospectively only to contracts that are not completed contracts at the date of 1 April 2018. The Group recognised the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained profits. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The cumulative effect of the changes debited to retained profits of the consolidated financial position at 1 April 2018 upon the adoption of IFRS 15 amounted to RMB410,000.

3. SEGMENT INFORMATION

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

Geographical information

The Group 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 the customers for the six months ended 30 September 2018 and 2017 is presented as follows:

	For the six months ended 30 September	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	**1,114,427**	819,212
Overseas	**528,083**	379,347
	1,642,510	1,198,559

Information about major customers

Revenue from an individual customer which amounted to more than 10% of the Group's revenue for the six months ended 30 September 2018 and 2017 is set out below:

	For the six months ended 30 September	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A *(Note 14(b))*	**480,621**	359,229

4. 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:

	For the six months ended 30 September	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	**1,640,678**	1,196,787
Rendering of service	**1,832**	1,772
	1,642,510	1,198,559
Goods transferred at point in time	**1,640,678**	1,196,787
Services transferred over time	**1,832**	1,772
	1,642,510	1,198,559
Other income and gains		
Bank interest income	**1,969**	741
Gain on disposal of items of property, plant and equipment	**–**	112
Government grants *(note (a))*	**259**	83
Compensation income	**134**	–
Gain on foreign exchange	**11,044**	–
Others	**290**	88
	13,696	1,024

Note (a): The amount represents grants received from local government authorities of the People's Republic of China (the "**PRC**") 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.

5. PROFIT BEFORE TAX

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

Group

	For the six months ended 30 September	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**1,228,982**	963,953
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**92,950**	72,990
Pension scheme contributions	**6,341**	4,441
Social security contributions and accommodation benefits	**9,011**	5,763
Interest on interest-bearing bank loans and discounted bills	**–**	9,921
Impairment of trade receivables	**36**	–
Net loss/(gain) on disposal of items of property, plant and equipment	**317**	(43)
Depreciation *(note 9)*	**20,838**	20,691
Recognition of prepaid land lease payments	**519**	447
Amortisation of intangible assets*	**371**	227
Foreign exchange (gain)/loss, net	**(11,044)**	288
Minimum lease payments under operating leases	**2,562**	2,049

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

6. INCOME TAX

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

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the six months ended 30 September 2018 and 2017.

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

	For the six months ended 30 September	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Income tax:		
Current tax	**71,789**	39,947
Deferred tax	**1,757**	689
Total tax charge for the period	**73,546**	40,636

7. DIVIDENDS

The proposed final dividend for the year ended 31 March 2018 of HK$0.16 per share in aggregate of HK$61,020,000 was approved by the shareholders on 20 August 2018 and has been paid in September 2018.

On 9 November 2018, the directors have declared an interim dividend of HK$0.20 per share in aggregate of HK$76,274,000 payable to the equity holders of the Company for the six months ended 30 September 2018 (for the six months ended 30 September 2017: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic earnings per share amount is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share amount is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period, and the weighted average number of ordinary shares assumed to have been issued for the share options granted.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 September	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	**219,309**	100,999
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**381,370,000**	301,967,213
Effect of dilution – weighted average number of ordinary shares Share options	**–**	6,287,136
	381,370,000	308,254,349

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2018, the Group acquired assets at a cost of RMB52,903,000 (six months ended 30 September 2017: RMB13,292,000), including property, plant and machinery in the PRC.

During the six months ended 30 September 2018, depreciation for property, plant and equipment amounted to RMB20,838,000 (for the six months ended 30 September 2017: RMB20,691,000).

Assets with a net book value of RMB902,000 were disposed of by the Group during the six months ended 30 September 2018 (six months ended 30 September 2017: RMB379,000), resulting in a net loss on disposal of RMB317,000 (six months ended 30 September 2017: a net gain on disposal of RMB43,000).

As at 30 September 2018 and 31 March 2018, there was no impairment of property, plant and equipment.

10. TRADE AND BILLS RECEIVABLES

Group

	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
Trade receivables*	**309,985**	236,130
Bills receivable	**464,466**	378,313
	774,451	614,443

* Trade receivables include trade receivables from the Controlling Shareholder.

Customers are usually required to make payments in advance before the Group delivers goods to them. However, the Group's trading terms with certain major customers with good repayment history and high reputations are on credit. The credit period is generally one to six months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimise credit risks.

10. TRADE AND BILLS RECEIVABLES (Continued)

Ageing analysis of trade receivables based on invoice date

An ageing analysis of the trade receivables as at 30 September 2018 and 31 March 2018, based on the invoice date and net of provisions, is as follows:

	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
Within 3 months	**258,037**	201,653
3 months to 6 months	**48,422**	34,477
6 months to 1 year	**3,562**	–
	310,021	236,130
Less: provision for impairment of trade receivables	**(36)**	**–**
	309,985	**236,130**

	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
Neither past due nor impaired	**306,459**	235,566
Past due but not impaired	**3,526**	564
	309,985	236,130

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

Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are unsecured and non-interest-bearing.

As at 30 September 2018 and 31 March 2018, none of the bills receivable was 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.

11. TRADE AND BILLS PAYABLES

Group

	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
Trade payables*	**369,203**	334,322
Bills payable	**182,924**	122,094
	552,127	456,416

* Trade payables include trade payables to the Controlling Shareholder.

Ageing analysis of trade payables based on invoice date

An ageing analysis of the outstanding trade payables as at 30 September 2018 and 31 March 2018, based on the invoice date, is as follows:

	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
Within 3 months	**368,701**	334,235
Over 3 months	**502**	87
	369,203	334,322

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below is an analysis of the carrying amounts of financial instruments by category, held by the Group as at 30 September 2018 and 31 March 2018:

Group

	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
Financial assets at amortised cost		
Trade and bills receivables	**774,451**	614,443
Financial assets included in prepayments, deposits and other receivables	**924**	3,839
Pledged deposits	**20,599**	12,758
Cash and cash equivalents	**227,511**	321,760
	1,023,485	952,800
Financial liabilities at amortised cost		
Trade and bills payables	**552,127**	456,416
Financial liabilities included in other payables and accruals	**14,092**	34,262
	566,219	490,678

13. CAPITAL COMMITMENTS

The Group had the following capital commitments at 30 September 2018 and 31 March 2018:

	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
Contracted, but not provided for:		
Land and buildings	**12,077**	77,100

14. RELATED PARTY TRANSACTIONS AND BALANCES

(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) The Group had the following material transactions with related parties during the six months ended 30 September 2018 and 2017:

		For the six months ended 30 September	
		2018	2017
	Note	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)
Sales of goods to			
Tsugami Corporation *(Note 3)*	*(i)*	**480,621**	359,229
Tsugami Korea Co., Ltd.		**10,452**	6,399
		491,073	365,628
Purchases of goods from			
Tsugami Corporation	*(i)*	**171,683**	149,487
Purchases of equipment from			
Tsugami Corporation	*(i)*	**–**	6,806
Licence fee to			
Tsugami Corporation	*(i)*	**73,660**	55,081
Service fee to			
Tsugami Corporation	*(i)*	**4,996**	4,685

Note:

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

14. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Outstanding balances with related parties

Group

	30 September 2018 RMB'000 (Unaudited)	31 March 2018 RMB'000 (Audited)
Amount due from the Controlling Shareholder		
Tsugami Corporation		
Trade receivables	**168,318**	73,892
Amount due from a company controlled by the Controlling Shareholder		
Tsugami Korea Co., Ltd.		
Trade receivables	**–**	2,398
Amounts due to the Controlling Shareholder		
Tsugami Corporation		
Trade payables	**45,466**	64,900
Other payables	**50**	50
	45,516	64,950

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

15. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited interim financial information was approved and authorised for issue by the board of directors on 12 November 2018.