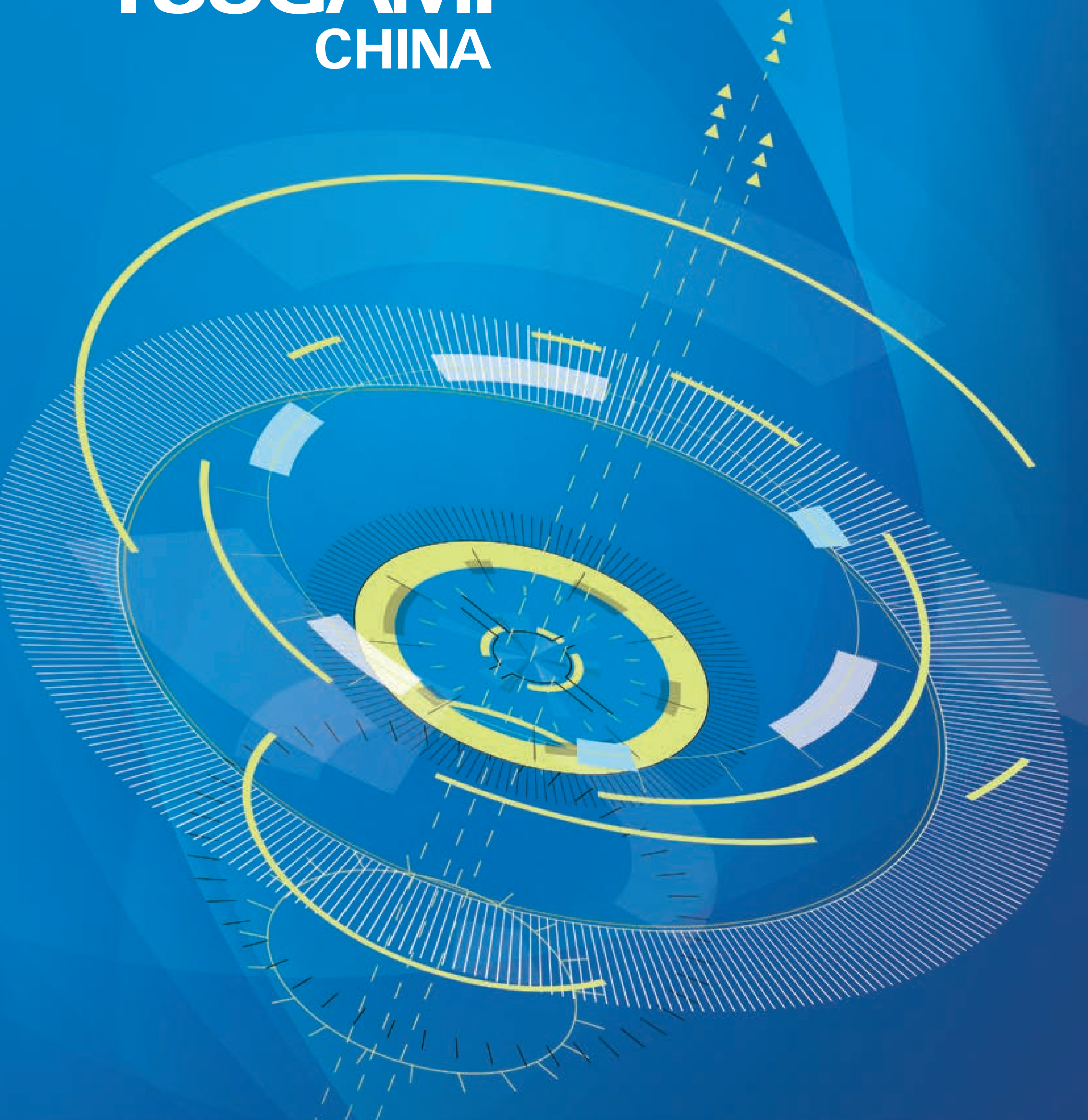
PRECISION TSUGAMI (CHINA) CORPORATION LIMITED

津上精密機床(中國)有限公司

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

PRECISION TSUGAMI CHINA

2018-2019 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 16 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 an industry report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., in December 2018.

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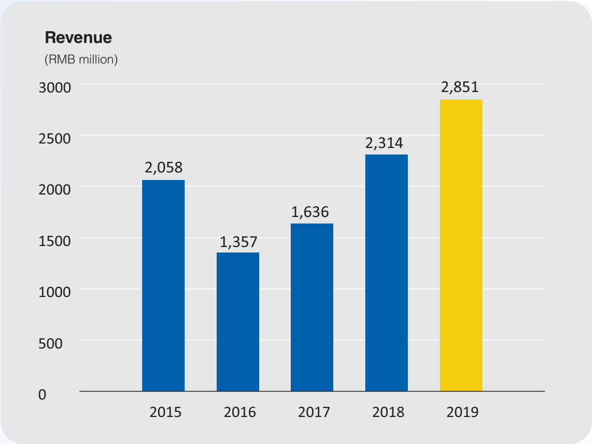
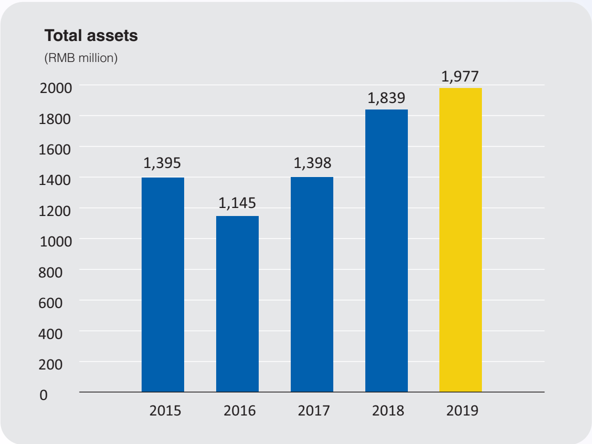
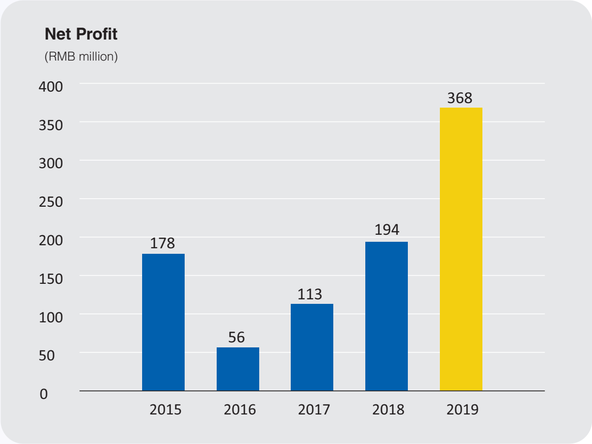
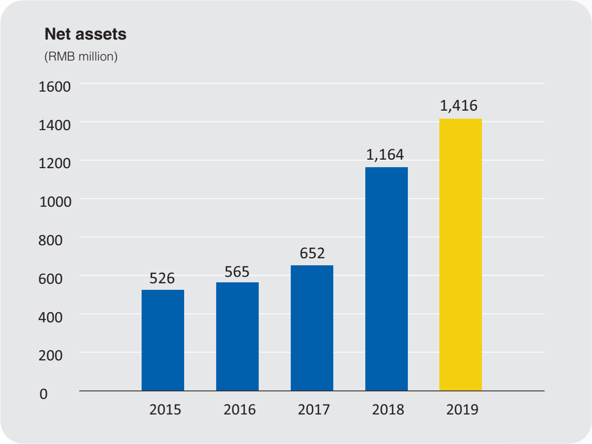
RESULTS HIGHLIGHTS









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. Manabu Tanaka *(appointed on 17 June 2019)*

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

Audit Committee
Mr. Tam Kin Bor *(Chairman)*
Mr. Manabu Tanaka *(appointed on 17 June 2019)*
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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The Landmark
15 Queen's Road Central
Hong Kong

Principal Place of Business
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Pinghu Economic and Technology
Development District
Zhejiang Province, 314200
PRC

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

Hong Kong Branch Share Registrar
Tricor Investor Services Limited
Level 54, 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

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 2019 (the "**Fiscal Year of 2019**", the "**Year under Review**" or the "**Year**") to the shareholders of the Company (the "**Shareholders**"). During the Year, in view of the strong demand for manufacturing equipment in China and other regions of the world in the first half of the Year, the Group seized the opportunities in a timely manner and achieved significant growth in its sales revenue and profit. In the second half of the Year, despite the macro-economic downturn, the Group maintained its growth in revenue with its plentiful orders on hand and business capability as compared to the same period of last year. The sales revenue for the Year amounted to approximately RMB2,850,883,000, representing an increase of approximately 23.2% as compared to last year; the gross profit amounted to approximately RMB712,816,000, representing an increase of approximately 51.0% as compared to last year; the net profit amounted to approximately RMB367,605,000, representing an increase of approximately 89.4% as compared to last year. Following the outstanding performance of the previous financial year, all three business indicators mentioned above illustrated how the Group has again achieved the best results since its incorporation. In addition, the basic earnings per share increased by approximately 68.4% to approximately RMB0.96 per share as compared to last year. On top of the remarkable performance for the last fiscal year, the Group achieved another even better results in the Year.

The board (the "**Board**") of directors (the "**Directors**") proposes to pay a final dividend of HK$0.15 per share. The Group is in a stage of rapid growth. In order not to be plagued by the short-term changes in the economic situation, the Group 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. Against the backdrop of the globally leading CNC high precision machine tool technology of Tsugami Japan, the Group is customer-oriented and strives to provide customers with cost-effective products and contribute 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 Mainland China and Taiwan markets and also exported to Japan, South Korea, Europe, the United States and other countries through overseas sales channel, Tsugami Japan. The Group also 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.

Affected by the trade frictions between China and the United States and macroeconomic changes, the CNC machine tool industry has also experienced ups and downs. However, generally, in recent years, the growth in product capacity of the Chinese manufacturing industry has transformed from quantitative to qualitative. From being labor-intensive to technology-intensive, transformation and upgrading have gradually become a mainstream across the industry, and the requirements for automation, numerical control and precision of manufacturing equipment are getting higher. There is potential for the demand of high-end manufacturing equipment 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 embarked on a fast development track.

Because of the weakening of the market that began in the second half of the Year, demand from the automobile parts and components industry has fallen back from the previous year. It is expected, however, that the automobile parts and components manufacturing industry would continue 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 high requirements for the precision of parts, and the Group’s main product, high precision lathes, provides solutions for such industries. The Group is also in the pneumatic and hydraulic components industries that provide parts for industrial automation. With the transformation and upgrading of the manufacturing industry in recent years, the demand for processing equipment continues to increase. These industries will still be the major sources of demand for the Group’s CNC high precision machine tools, with adjustment at certain time. The Group’s penetration into the segments of the aforesaid industries is also an important driver for our development in future.

Although the demand from overseas manufacturing industry began to decline in the second half of the Year, the impact was lagging behind the domestic market, and overseas sales of the Group achieved an increase of approximately 31.4% as compared to last year.

During the Year, the Group launched new models such as the more versatile processing centre VA4, the M08JL8-II with processing capacity of long workpieces of 800mm, B026/32-III and SS207. The continuous expansion of product lines will be an important task, in the coming years, for the Group to expand its customer base in various downstream industries.

Given the market changes, in order to maintain the Group’s competitiveness, which is led by its experienced management and with the active participation of all staff, the Group has made various efforts in reducing costs, rationalising the inventory and enhancing the efficiency of its production process. It is also an important reason for the continuous increase in the gross profit margin in the Fiscal Year of 2019.

During the Year, the Group continued to strengthen the construction of business outlets, and has established new centres in Ji’nan, Zhengzhou, Nanchang, Wenzhou, Huai’an and Baoding. The number of sales agency outlets also increased to approximately 273.

The intensification of trade frictions between China and the United States may have a relatively larger negative impact on China’s manufacturing industry and the economy as a whole, and also have an impact on the Group’s performance. In this regard, we are cautious about the coming fiscal year, and there is a possibility of a certain degree of decline in performance.

The Company is quite confident about the great potential for future growth in the CNC high precision machine tool industry in China in the long run. Despite a cautious view for the coming fiscal year, the Group will continue to put more efforts in the market exploration and promotion of 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. The Group will continue to strive to enhance the operation, production and management of the Group in order to reduce cost and improve efficiency. The two new plants of the production plant four have been built and put into use, while the construction of the new plant in Anhui is in progress, which the Group will adjust its plan based on actual demand in the future to prepare capacity for future sales of the Group.

CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to express my sincere 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 2019. 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 to the customers and business partners of the Group for their long-term support and contribution to the Group.

Takao Nishijima
Chairman
Hong Kong, 27 June 2019

BUSINESS REVIEW

For the year ended 31 March 2019, the Group maintained the great growth momentum in performance from the previous financial year. The sales amounted to approximately RMB2,850,883,000, representing an increase of approximately 23.2% as compared to last year. The net profit amounted to approximately RMB367,605,000, representing an increase of approximately 89.4% as compared to last year. Such sales and net profit hit the record of the Group.

Earnings per share amounted to RMB0.96, representing an increase of 68.4% as compared to last year.

During the Year under Review, continuous international tension and fluctuation in the macro economic environment have a greater impact on the manufacturing industry of China. In the first half of the Year under Review (for the six months ended 30 September 2018), the macro economy maintained the stable momentum developed from the previous financial year. Generally, the manufacturing industry of China had a strong demand for high-end CNC machine tools. In the second half of the Year under Review (for the six months ended 31 March 2019), trade frictions between China and the United States and the slowdown development in private economy led to the downturn in the macro economy and the weakened demand for high-end CNC machine tools from the manufacturing industry of China.

In the abovementioned circumstances, the Group still obtained satisfactory results by leveraging on its advanced technology, brand influence, efforts of its sales team and production plants. At the beginning of the Year under Review, the Group further enhanced its productivity by allocating more staff and making improvement in the bottleneck process and overcame the challenge brought by the supply shortage of certain key parts and components of the CNC high precision machine tools. In the second half of the Year under Review, the Group continued to improve its performance by expanding its business scope, adopting new technology and launching new products as compared to the excellent performance achieved in the second half of the previous financial year.

Precision lathes, being the main products of the Group, continuously maintained the leading position in the PRC market, and achieved a sales of approximately RMB2,441,490,000 during the Year under Review, representing an increase of 26.7% as compared to last year.

The demand for precision machining centres had decreased significantly as compared to last year due to the adjustment to the production for smartphone related products at the beginning of the Year under Review. As a result, sales of precision machining centre products of the Group decreased by approximately 30.2% as compared to last year, amounted to approximately RMB108,745,000 for the Year under Review.

Benefiting from the strong demand from the automobile industry in the first half of the Year under Review, sales of precision grinding machines reached approximately RMB150,887,000, representing an increase of approximately 41.4%.

FINANCIAL REVIEW

Revenue

For the year ended 31 March 2019, the total revenue increased by approximately 23.2%, or approximately RMB536,668,000, from approximately RMB2,314,215,000 last year to approximately RMB2,850,883,000 this year. Such increase was primarily the results of (i) precision lathes, as the leading products in the market, receiving broader recognition from customers and achieving sales of approximately RMB2,441,490,000 this year, representing an increase of approximately 26.7%; and (ii) other models, such as precision grinding machines and others (primarily including accessory parts and components), seeing considerable sale increases and achieving sales of approximately RMB150,887,000 and approximately RMB133,930,000 this year, respectively, representing increases of approximately 41.4% and approximately 18.6% 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 2019	**Proportion (%)**	For the year ended 31 March 2018	Proportion (%)	**Year-on-year increase (%)**
Precision lathes	**2,441,490**	**85.6%**	1,926,794	83.3%	**26.7%**
Precision grinding machines	**150,887**	**5.3%**	106,672	4.6%	**41.4%**
Precision machining centres	**108,745**	**3.8%**	155,704	6.7%	**(30.2%)**
Precision thread and form rolling machines	**15,831**	**0.6%**	12,118	0.5%	**30.6%**
Others	**133,930**	**4.7%**	112,927	4.9%	**18.6%**
Total	**2,850,883**	**100%**	2,314,215	100%	**23.2%**

* For certain model of machine last year has been reclassified to confirm with the presentation for this year.

Gross Profit and Gross Profit Margin

For the year ended 31 March 2019, gross profit increased by approximately 51.0% to approximately RMB712,816,000 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, new customer and new usage. The Group's overall gross profit margin also increased from approximately 20.4% for the year ended 31 March 2018 to approximately 25.0% for the year ended 31 March 2019. 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 2019, other income and gains increased by approximately 114.8% to approximately RMB18,157,000, primarily due to the increases in net gain on foreign exchange, while a net loss on foreign exchange was recorded for last year.

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 15.6% as compared to last year to approximately RMB113,670,000 this year, representing approximately 4.0% 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, 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 80.8% as compared to last year to approximately RMB128,872,000 this year, mainly due to the increases in research and development expenses and staff salaries and benefits being increased 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 decreased by approximately RMB26,068,000 as compared to last year to approximately RMB3,726,000 this year, mainly due to the decrease in net foreign exchange losses arising from the larger fluctuation of the exchange rate of HK dollars against Renminbi and the absence of losses on the disposal of fixed assets (especially buildings) of the production plant four of the Company from last year as no loss of such item occurred during the Year under Review.

Impairment Losses on Financial Assets

During the Year under Review, impairment losses on financial assets increased to approximately RMB1,008,000 this year as compared to nil last year, mainly due to the impacts of adopting IFRS 9's expected credit losses.

Finance Costs

During the Year under Review, the Group did not have any finance costs, mainly due to no interest on bank borrowings of the Group recorded as a result of the repayment of bank borrowings with proceeds from the initial public offering in the third quarter of 2017, and no interest on discounting bills occurred as there was no bills being discounted.

Income Tax Expenses

During the Year under Review, income tax expenses increased by approximately 51.5% as compared to last year to approximately RMB116,092,000 this year, 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 89.4% from approximately RMB194,090,000 for the year ended 31 March 2018 to approximately RMB367,605,000 for the year ended 31 March 2019.

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 2019, the total cash and cash equivalents of the Group amounted to approximately RMB400,275,000 (31 March 2018: approximately RMB321,760,000). Such increase was mainly due to the increase in net cash flows from operating activities.

As at 31 March 2019, the Group's cash and cash equivalents were mainly held in Renminbi, and part of them were held in Hong Kong dollars and Japanese yen.

As at 31 March 2019, the Group recorded net current assets of approximately RMB1,030,240,000 (31 March 2018: approximately RMB799,001,000). Capital expenditures for the year ended 31 March 2019 amounted to approximately RMB78,797,000, which was mainly utilised to finance the plant construction, addition of processing equipment, addition of prepaid land lease payments and purchase of software.

As at 31 March 2019, the Group had no outstanding bank loans (31 March 2018: nil) and no discounted bills with recourse (31 March 2018: nil). As at 31 March 2019, the Group had no bank loans and other borrowings and hence no applicable gearing ratio, calculated by dividing the total bank loans and other borrowing by the total equity (31 March 2018: not applicable).

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

	For the year ended 31 March	
	2019	2018
Average inventory turnover days *(Note 1)*	**98**	97
Average turnover days of trade and notes receivables *(Note 2)*	**71**	79
Average turnover days of trade and notes payables *(Note 3)*	**72**	81

	As at 31 March	
	2019	2018
Current ratio *(Note 4)*	**2.9**	2.2

Notes:

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

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

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

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

Average inventory turnover days

The Group's average inventory turnover days for the year ended 31 March 2019 were approximately 98 days, basically no change compared to last year.

Average turnover days of trade and notes receivables

The Group's average turnover days of trade and bills receivables for the year ended 31 March 2019 were approximately 71 days, representing a decrease of approximately 8 days as compared to last year. The turnover of the Group's trade and notes receivables has maintained at a reasonable level, the improvement over the previous year was mainly due to the increase in sales for the year ended 31 March 2019. Although the average balance of the trade and notes receivables has also increased due to improvement of the Group's liquidity, so that the Group discounted less bank acceptance bills, the ratio for increase in average balance of trade and notes receivables was lower than the increase in sales. The relevant trade receivables remained in the normal credit period.

Average turnover days of trade and notes payables

The Group's average turnover days of trade and notes payables for the year ended 31 March 2019 were approximately 72 days, representing a decrease of approximately 9 days as compared to last year, mainly due to the increase in cost of sales for the year ended 31 March 2019 was higher than the increase in average balance of trade and notes payables.

Current ratio

As at 31 March 2019, the Group's current ratio was approximately 2.9 times, while it was approximately 2.2 times as at 31 March 2018, mainly due to the increase in net current assets of the Group as a result of the increases in cash and cash equivalents and inventories and the decreases in trade payables and other payables and accruals.

Capital Commitment

The capital commitment of the Group at the end of the Reporting Period is as follows:

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Contracted but not provided:		
Land and buildings	**1,801**	77,100

Contingent Liabilities

As at 31 March 2019, the Group had no material contingent liabilities (31 March 2018: nil).

Currency Risk and Management

Apart from a few overseas businesses that are settled in JPY, the sales and procurement by the Group are mainly denominated in Renminbi, therefore, the management of the Group believes that the Company does not have significant exchange risk.

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

Use of Net Proceeds from Listing

The Company 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 utilised 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**"). During the period from the initial public offering and up to 31 March 2019, the net proceeds from the initial public offering have been utilised as shown in the table below:

	Net proceeds from the initial public offering (including the issuance of over-allotment shares) HK$ million	Utilised amount from the date of initial public offering to 31 March 2018 HK$ million	Utilised amount for the year ended 31 March 2019 HK$ million	Unutilised amount as at 31 March 2019 HK$ million
Rebuilding and renovating part of the Group's production plant four	42.4	25.6	16.8	–
Purchasing and replacing production machinery and equipment for the Group's Pinghu production plants	17.4	12.8	4.6	–
Expanding the Group's sales network and increasing the Group's market penetration in the PRC	1.7	0.9	0.8	–
Repaying the Group's bank loans	266.2	266.2	–	–

The rebuilding and renovating part of the Group's production plant four mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus was completed and put into use during the year ended 31 March 2019. The construction costs beyond the net proceeds for the construction work at the Group's production plant four were supplemented by the Group's internal resources. In order to improve the Group's processing capacity of parts and components, the net proceeds for purchasing and replacing the production machinery and equipment of Pinghu production plant was also fully utilised. As at the end of the Year under Review, the plans described in the section headed "Future Plans and Use of Proceeds" of the Prospectus were completed.

The Directors of the Group are of the view that there was no significant change or delay in the use of the Group's proceeds during the Year under Review.

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 established in 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 million. On 18 April 2018, Precision Tsugami (Anhui) Corporation* (安徽津上精密機床有限公司), a wholly-owned subsidiary of the Company, was established for the above purpose with a registered capital of RMB50 million. In addition, on 7 June 2018, Ma'anshan Land Resources Bureau (as the transferor) and Precision Tsugami (Anhui) Corporation (as the transferee) entered into a land use right transfer agreement in relation to the acquisition of the land use right of a piece of land located in Bowang District, Ma'anshan, Anhui Province, the PRC at a consideration of RMB10,200,000.

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 2019, apart from the bank deposits of approximately RMB14,627,000 (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.

Future Plans for Material Investments or Capital Assets

Save as disclosed in this annual report, the Group did not have any future plans for material investments or capital assets as at 31 March 2019.

Employees and Remuneration Policy

As at 31 March 2019, the Group employed 1,572 employees (31 March 2018: 1,753), of whom 21 (31 March 2018: 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 RMB215,381,000 (2018: RMB172,771,000) 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 their 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.

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

OUTLOOK

The trade frictions between China and the United States has showed a long-term trend accompanying with other uncertainties, it may have a relatively larger negative impact on China's manufacturing industry and the economy as a whole. This may result in a decline in the demand for high-end CNC machine tools. In this regard, the management of the Group is cautious about the Group's development in the coming year. According to the information currently available, the performance of the Group in the first quarter of the coming financial year will be lower than that of the first quarter of the Year under Review, and there is a possibility of a certain degree of decline in performance in the coming financial year.

However, in the long run, the management of the Group has always believed that the transformation and upgrading of the Chinese economy and the CNC machine tool market will continue to expand. In the fourth quarter of the Year under Review, the Group achieved a relatively satisfactory number of orders in the domestic market, according to the management's opinion, this was because the demand suppressed by the difficult economic situation in the second and third quarters was released to a certain degree in the fourth quarter after signs of the slight easing of the trade frictions between China and the United States. It is proven that China's manufacturing industry has potential demand for high-end CNC machine tools.

The Group will strive not to be plagued by the short-term changes in the economic situation. It will concentrate more to enhance its own strength, further adjust its production system, increase production efficiency, reduce costs and improve product quality. The Group will continue to improve the manufacturing systems, expand the number of distributors and explore new industries and customers. The Group will also be committed to creating new growth potentials by continuous investing in new products and core technologies and enriching product lines.

The construction of the two plants of the Group's production plant four was completed and put into use, and the new Anhui production plant project is also under construction. The Group will adjust its plan based on actual demand in the future to prepare capacity for future sales of the Group.

The Group will further improve its operational and financial performance, strengthen its leading position in the industry and create an ideal return for shareholders of the Company.

Executive Directors

Dr. Tang Donglei (唐東雷) ("Dr. Tang"), aged 56, 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 legal representative, 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.

Dr. Li Zequn (李澤群) ("Dr. Li"), aged 58, was appointed as the executive Director of the Company on 20 August 2018. He 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 management department of the Group as well as a supervisor of Precision Tsugami (Anhui) Corporation* (安徽津上精密機床有限公司). 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; he also 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 and 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 and 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.

Non-executive Directors

Mr. Takao Nishijima (西嶋尚生) ("Mr. Nishijima"), aged 71, 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 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 55, was appointed as our non-executive Director and a member of audit committee on 13 May 2015 and 4 September 2017, and ceased to be a member of audit committee from 17 June 2019, 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 and Precision Tsugami (Anhui) Corporation* (安徽津上精密機床有限公司). Ms. Matsushita is the chief operating officer and head 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.

Mr. Manabu Tanaka (田中學) ("Mr. Tanaka"), aged 54, was appointed as a non-executive director and a member of the audit committee of the Company on 17 June 2019. He joined Tsugami Japan (a company listed on the Tokyo Stock Exchange (TYO: 6101)) as a full-time consultant and the head of the general affairs department in January 2019. Prior to joining the Company, Mr. Tanaka held various positions at The Bank of Tokyo-Mitsubishi, Limited (三菱銀行株式會社) (currently known as MUFG Bank, Ltd. (三菱UFJ銀行株式會社)) since April 1988. Mr. Tanaka consecutively served as the chief of the securities business division of the marketing department, the head of the trust property business department and the head of the asset advisory department of The Bank of Tokyo-Mitsubishi, Limited.

Mr. Tanaka graduated from Keio University and obtained his bachelor' s degree in Economics in March 1988.

Independent Non-executive Directors

Dr. Eiichi Koda (甲田英一) ("Dr. Koda"), aged 71, 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 56, was appointed as the 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 is 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 50, 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 a member of remuneration committee (redesignated from the chairman of remuneration committee to a member of remuneration committee on 2 February 2018) and 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 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

Mr. Jiang Ping (蔣平) ("Mr. Jiang"), aged 56, joined the Group since March 2006 and is the vice president of our Group, a director of PTC and the president and a director of Tsugami China Consultants Co., Limited. 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 49, joined the Group since January 2009 and is the vice president of our Group and a director of PTC, Shinagawa Precision and Precision Tsugami (Anhui) Corporation* (安徽津上精密機床有限公司). He is primarily responsible for technical 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 45, 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 in technology management from Yokohama National University (橫濱國立大學) in Japan in September 2006.

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

Company Secretary

Ms. Wong Wai Yee Ella (黃慧兒) ("Ms. Wong"), aged 43, was appointed as the company secretary of the Company in June 2015. Ms. Wong is the director of corporate services of Tricor Services Limited ("**Tricor**"), which is a global professional services provider specializing in integrated Business, Corporate and Investor Services. Ms. Wong has over 20 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Wong currently serves as the company secretary/joint company secretary for a number of companies listed on the Stock Exchange.

Ms. Wong is a Chartered Secretary, a Chartered Governance Professional and a Senior Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Wong holds her bachelor degree in economics from The University of Hong Kong and a Postgraduate Diploma in Corporate Administration from the City University of Hong Kong.

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 Year.

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. 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 Year.

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.

During the Year, the Company has 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 Year, the independent non-executive Directors represent at least one-third of the Board.

During the Year, 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

During the year ended 31 March 2019 and up to the date of this report, the members of the Board have been and are:

Executive Directors:

Dr. Tang Donglei *(Chief Executive Officer)*
Dr. Li Zequn *(appointed from 20 August 2018)*
Mr. Yoshimasa Hashimoto *(retired from 20 August 2018)*

Non-executive Directors:

Mr. Takao Nishijima *(Chairman)*
Ms. Mami Matsushita
Mr. Manabu Tanaka *(appointed from 17 June 2019)*
Mr. Nobuaki Takahashi *(appointed from 20 August 2018 and resigned from 17 June 2019)*
Mr. Tatsushi Hidano *(retired from 20 August 2018)*
Dr. Ng Lai Man Carmen *(retired from 20 August 2018)*

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 the objectives, policies, strategies and business plans as 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), who have diversified industry expertise but are 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 providing 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 of 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 2019.

BOARD MEETINGS

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

During the Fiscal Year of 2019 and up to the date of this report, the members of the Audit Committee have been and are:

Mr. Tam Kin Bor *(Chairman)*
Dr. Huang Ping
Mr. Manabu Tanaka *(Appointed as a member of the Audit Committee from 17 June 2019)*
Ms. Mami Matsushita *(Ceased to be a member of the Audit Committee from 17 June 2019)*

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 Fiscal Year of 2019, the Audit Committee held two meetings to review, assess and comment on the audited consolidated financial statements for the year ended 31 March 2018 and unaudited consolidated financial statements for the six months ended 30 September 2018 respectively. 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 Fiscal Year of 2019 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 Fiscal Year of 2019 and up to the date of this report, the members of the Remuneration Committee have been and are 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 Fiscal Year of 2019, one meeting was held by the Remuneration Committee in relation to:

1) the remuneration determination of two newly-appointed Directors, Dr. Li Zequn (executive Director) and Mr. Nobuaki Takahashi (non-executive Director); and

2) the review of remuneration packages of Directors and senior management of the Group. 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	2

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 Fiscal Year of 2019 and up to the date of this report, the members of the Nomination Committee have been and are 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 re-appointment 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, gender, age, 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 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 to 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 Fiscal Year of 2019, 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, recommendations have been made to the Board for change of members of the Board committee, namely retirement by rotation of three Directors and appointment of two Directors.

Nomination Policy

On 28 December 2018, the Board adopted a nomination policy (the "**Nomination Policy**") setting out the criteria and procedures for nomination and appointment of Directors.

(1) In assessing and selecting candidates for directorship, the Nomination Committee and/or the Board should consider the following criteria:

- Character and integrity;
- Qualifications (including professional qualification, skills, knowledge and experience related to business and strategies of the Company) as well as diversity factors as referred to in Board diversity policy of the Company;
- Any measurable objectives adopted to achieve diversity of the Board;
- The Listing Rules, requirements put forward to the Board to include independent non-executive Directors and the guidelines as set out in the Listing Rules, stating whether candidates are considered to be independent as reference;
- Any potential contribution to the Board in terms of professional qualifications, skills, experience, independence and gender diversity of the candidates;
- Whether being willing and able to devote sufficient time to discharge its duties as a member of the Board and/or its committees of the Company; and
- Applicable to the Company's business and its succession plans, and where applicable, such other factors as the Board and/or the Nomination Committee may from time to time adopt and/or modify for the nomination of Directors and succession plans.

(2) Procedures for appointment of new Directors

(i) The Nomination Committee and/or the Board may recruit director candidates from a variety of sources, including but not limited to internal promotion, re-designation, and recommendation from other members of the management and external recruitment agencies.

(ii) Upon receipt of the proposal for the appointment of a new Director and the candidate's biographical information (or relevant details) by the Nomination Committee and/or the Board, the candidate will be assessed based on the above criteria to determine whether the candidate is qualified to be a Director.

(iii) If the process involves one or more suitable candidates, the Nomination Committee and/or the Board shall prioritize the candidates based on the Company's needs and the reference check of each candidate, as appropriate.

(iv) The Nomination Committee shall then make recommendations to the Board on the appointment of a suitable candidate as a Director, as appropriate.

(v) For any person nominated by the Shareholders for election as a Director at a general meeting of the Company, the Nomination Committee and/or the Board shall assess the candidate based on the above criteria to determine whether the candidate is qualified to be a Director.

The Nomination Committee and/or the Board shall make recommendations to the Shareholders (if applicable) on the proposals for the appointment of Directors at the general meeting.

(3) Re-election of Director at general meeting

(i) The Nomination Committee and/or the Board shall review the overall contribution and service of the retiring Directors to the Company, as well as their participation and performance in the Board.

(ii) The Nomination Committee and/or the Board shall also review and determine whether the retiring Directors still conform with the above criteria.

(iii) The Nomination Committee and/or the Board shall make recommendations to the Shareholders on the proposals for the re-election of Directors at the general meeting.

If the Board proposes a resolution to appoint or re-elect a person as a Director at the general meeting, the information of the candidate will be set out in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or relevant applicable laws and regulations.

Competition Executive Committee

The Company has established an executive committee (the "**Competition Executive Committee**") comprising two disinterested Directors on 4 September 2017. During the Fiscal Year of 2019 and up to the date of this report, the members of the Competition Executive Committee have been and are:

Dr. Tang Donglei *(Chief Executive Officer)*
Dr. Li Zequn *(Appointed from 20 August 2018)*
Dr. Ng Lai Man Carmen *(Retired from 20 August 2018)*

Major responsibilities of Competition Executive Committee are to monitor the business of our 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, since the Fiscal Year of 2019 and up to the date of this report, 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 Fiscal Year of 2019 are as follows:

	No. of meetings attended/held				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual general meeting
Executive Directors:					
Dr. Tang Donglei *(Chief Executive Officer)*	4/4	N/A	N/A	N/A	1/1
Mr. Yoshimasa Hashimoto *(Note 1)*	1/1	N/A	1/1	N/A	1/1
Dr. Li Zequn *(Note 2)*	3/3	N/A	N/A	N/A	N/A
Non-executive Directors:					
Mr. Takao Nishijima *(Chairman)*	4/4	N/A	N/A	1/1	0/1
Ms. Mami Matsushita	3/4	2/2	N/A	N/A	1/1
Mr. Tatsushi Hidano *(Note 3)*	1/1	N/A	N/A	N/A	1/1
Dr. Ng Lai Man Carmen *(Note 4)*	1/1	N/A	N/A	N/A	0/1
Mr. Nobuaki Takahashi *(Note 5)*	3/3	N/A	N/A	N/A	N/A
Independent non-executive Directors:					
Dr. Huang Ping	4/4	2/2	1/1	N/A	1/1
Dr. Eiichi Koda	3/4	N/A	N/A	0/1	1/1
Mr. Tam Kin Bor	4/4	2/2	1/1	1/1	1/1

Notes:

1 Mr. Yoshimasa Hashimoto ceased to be a member of the Board since 20 August 2018.

2 Dr. Li Zequn has been appointed as a member of the Board since 20 August 2018.

3 Mr. Tatsushi Hidano ceased to be a member of the Board since 20 August 2018.

4 Dr. Ng Lai Man Carmen ceased to be a member of the Board since 20 August 2018.

5 Mr. Nobuaki Takahashi has been appointed as a member of the Board since 20 August 2018 and resigned since 17 June 2019.

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 2019, 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 2019	870
Non-audit services – interim review fees for the six months ended 30 September 2018	500
Non-audit services – others *(Note)*	208
Total	1,578

Note: Other non-audit services represented review services, which include:

- risk management and review service for internal control;
- tax consultation service; and
- transfer pricing report producing service.

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 the relevant laws and disclosure provisions of the Listing Rules.

In preparing the financial statements for the year ended 31 March 2019, the Directors have selected appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent and reasonable, and prepared disclosure of the financial position of the Group with reasonable accuracy at any time.

Apart from the uncertainties arising from the trade frictions between China and the United States, which may have a relatively larger negative impact on China's manufacturing industry and the economy as a whole, resulting in a decline in the demand for high-end CNC machine tools, as disclosed in the section headed "Management Discussion and Analysis - Outlook", 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 as delegated by an external service provider. The external service provider's primary contact person in the Company is Dr. Li Zequn, the executive Director and 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.

DIVIDEND POLICY

The Company intends to generate long-term value for the Shareholders by maintaining a balance between dividend distributions and sufficient liquidity and reserves in order to meet its working capital requirements, realize future business growth and its equity value. The Company does not have any predetermined dividend payout ratio and the Board may at its absolute discretion declare and pay dividends to the Shareholders subject to the articles of association of the Company and all applicable laws and regulations.

Pursuant to the dividend policy of the Company (the "**Dividend Policy**"), the Board shall consider the declaration of dividend by taking into account the following factors pertaining to the Group:

- Our financial results;
- Cash flow status;
- Business conditions and strategies;
- Future operations and revenue;
- Capital requirements and expenditure plans;
- Shareholders' interests;
- Any restriction on the payment of dividends; and
- Any other factors which the Board may deem relevant.

The Board will review the Dividend Policy from time to time and may renew, amend and/or modify the Dividend Policy at its sole and absolute discretion at any time as it thinks fit and necessary. The Dividend Policy does not constitute any legally binding commitment of the Company that any dividend will be paid in any particular amount and/or will not require the Company to declare dividend at any time or from time to time.

SHAREHOLDER RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

According to the article 12.3 of the Articles of Association, 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, 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 Level 54, Hopewell Centre, 183 Queen’s Road East, 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 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, directly put 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 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 system operation as required in paragraph C.2 of the CG Code as set out in Appendix 14 of the Listing Rules, with the purpose of managing the risk of failure to achieve the business objectives, as well as enhancing the effective and efficient operation. However, such systems are designed to manage rather than eliminate the risk of failure to achieve the 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 conduct 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 developed 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 Year, 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 Year 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 stipulates 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 appropriate course of actions for rectifying the problem and avoiding the likelihood of its recurrence.

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 service 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 service that foster a sustainable environment for future generation.

This report summarizes several subjects of the Group's business practices for the Environmental, Social 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 report covers the period from 1 April 2018 to 31 March 2019 (referred to as the "**Reporting Period**").

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

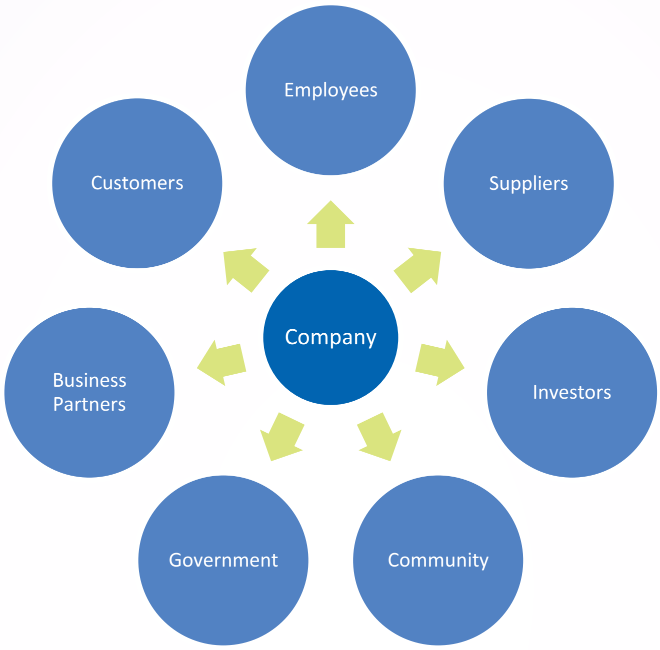
Given that the Group is an investment holding and manufacturing company, the contents of the ESG report content are concerned primarily with the operation of PTC, its major operating subsidiary in the PRC.

COMMENTS AND FEEDBACK

The progress of the Group depends in part on stakeholders' valuable comments. For any doubts about or advice as regards to this ESG Report, please forward your comments and suggestions to ir@tsugami.com.cn.

STAKEHOLDER ENGAGEMENT

The Group believes that understanding the views of the stakeholders lays a solid foundation to the long-term growth and success of the Group. The Group has a wide network of stakeholders, including employees, customers, suppliers, business partners, investors, government and the community.



The Group develops multiple channels to the stakeholders which summarized in the following table which provide them with the opportunities to express their views on the Group's sustainability performance and future strategies. To reinforce mutual trust and respect, the Group is committed to maintaining enduring communication channels, both formally and informally, with stakeholders to enable the Group to better shape its business strategies in order to respond to their needs and expectations, anticipate risks and strengthen key relationships. The information collected through different communication processes serves as an underlying basis for the structure of this ESG report.

Stakeholder Groups	Engagement channels	Possible concerned issues
Investors	• General meetings • Regular corporate publications including financial reports • Circulars and announcements • Corporate website • Direct communication • Meetings and responses to phone and written enquiries	• Business strategies and sustainability • Financial performance • Corporate governance
Customers	• Direct communication • Emails • Complaint hotlines • Business meetings	• Service quality and reliability • Client information security • Business ethics
Employees	• Appraisals • On-the-job coaching • Trainings • Internal memorandum • Human resources manual • Exit interview	• Training and development • Employee remuneration • Rights and benefits • Working hours • Occupational health and safety • Equal opportunities • Sexual harassment
Suppliers and business partners	• Business meetings • Tendering for procurement of products or services	• Fair competition • Fulfillment of promises • Payment schedule
Government and other regulatory authorities	• Statutory filings and notification • Regulatory or voluntary disclosures	• Compliance with law and regulations • Treatment of inside information • Co-operation with enquiries
Local community	• Community activities • Donations and sponsorships • Voluntary activities	• Fair employment opportunities • Environmental protection

MATERIALITY ASSESSMENT

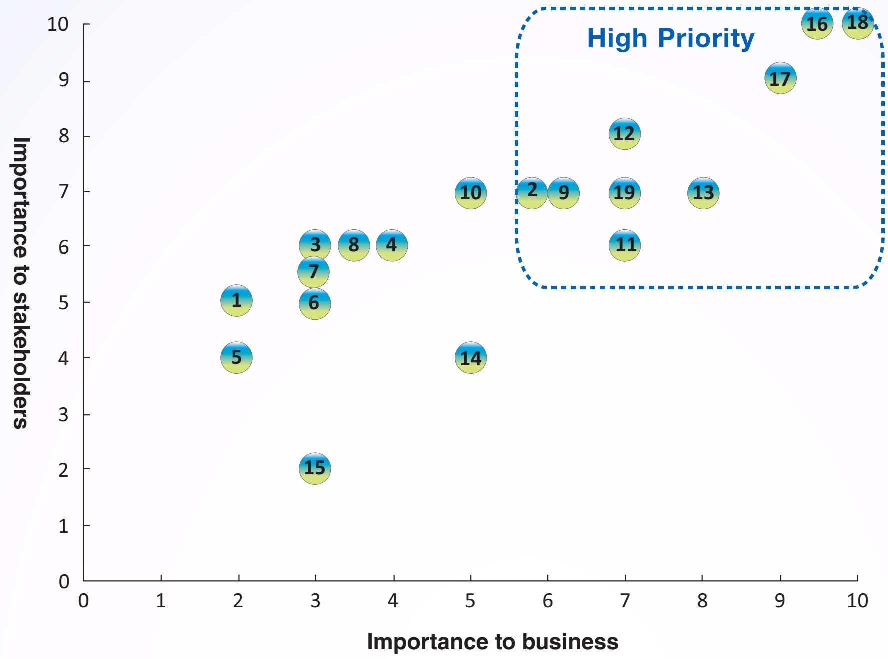
The Group has maintained close communication with the stakeholders since the Company listed on the Stock Exchange. Through ongoing discussions and direct communications with the stakeholders, the Group understands the main concerns and material issues that matter most to the stakeholders. The main concerns and material issues are listed below:

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 Materials 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 Labour Standards	14. Anti-child and Forced Labour
	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 Anti-money Laundering
	B8 Community Investment	19. Community Support

The recognition of sustainable development and environmental reform are the most fundamental elements to the operation of the Group; as well as the relationship and happiness of all the employees have become the leading priorities in the Group's operation.

The Group is dedicated to fair and equal treatment in all areas of human resources, including recruitment and promotion, compensation and dismissal, working hours, benefits and welfare.

Pursuant to environmental and social issues based on the ESG Reporting Guide within the scope of sustainability and the information collected from the stakeholders and the assessments of their importance on business, the Group built a two-dimensional materiality matrix and identified the following issues that are in high priority to the stakeholders and the Group. The priorities are set based on the management's view as well as stakeholders' feedback.



High Priority Issues

No	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 Customers Satisfaction
17	Protection of Customers Privacy
18	Anti-corruption and Anti-money Laundering
19	Community Support

APPROACH TO SUSTAINABILITY DEVELOPMENT

As a responsible company, the Group continues to step up for sustainability measures as a corporate responsibility as well as meeting the customers' standards. To make the Group's investors and stakeholders properly informed for assessment, the Group has set out below its efforts to minimize the negative influence to the environment, promote the Group's employees' well-being and contribute to the society during the Reporting Period.

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 keeps 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 strives 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; and
- Conclude the environmental impact, measures to control total emission and improvements.

Aspect A.1: Emissions

During the Reporting Period, 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.

Air Emission

During the Reporting Period, 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. Certain comparative figures for the year ended 31 March 2018 have been restated to conform to current year's presentation.

The Group's air emissions are mainly generated by the use of vehicles. The Group strives to improve the air quality at the roadside and improve traffic flow problem. The Group encourages the employees to take public transportation for commuting and replacing highly polluting vehicles with more environmentally-friendly vehicles.

During the Reporting Period under review, the Group's key exhausted gases generated from the combustion process are Sulphur Oxides (SOx), Nitrogen Oxide (NOx), and Particulate Matter (PM). As illustrated from the table below, the Group produced 1,133.78g, 127,682.56g and 11,491.55g of SOx, NOx and PM in the Reporting Period.

Air Emissions	FY2019 (in g)	FY2018 (in g)
Sulphur Oxides (SO_x)	**1,133.78**	876.27
Nitrogen Oxide (NO_x)	**127,682.56**	112,936.32
Particulate Matter (PM)	**11,491.55**	10,244.09

Greenhouse Gas Emission

The carbon footprint arising from the Group's day-to-day operations is primarily from vehicles, the use of electricity, such as lighting system, air-conditioning, computers, printers and other office equipment, business travel and paper consumption. The amount of each greenhouse gas emission for the Reporting Period is summarized in the table below.

	CO_2e Emission	
Emission Sources	**FY2019 (in tons)**	**FY2018 (in tons)**
Scope 1 Direct Emission		
Company Vehicles	**182.67**	153.90
Refrigerant	**39.10**	69.52
Tree Planting	**(11.50)**	(11.50)
Sub-total	**210.27**	211.92
Scope 2 Indirect Emission		
Purchased Electricity	**9,044.77**	7,621.16
Sub-total	**9,044.77**	7,621.16
Scope 3 Other Indirect Emission		
Production Material	**–**	94.94
Emission from Paper Waste	**56.45**	41.04
Emission from Other Waste	**413.05**	5,714.57
Business Travel	**104.82**	124.96
Emission from Fresh Water Processing	**18.80**	25.86
Emission from Sewage Processing	**8.89**	12.23
Sub-total	**602.01**	6,013.60
Total	**9,857.05**	13,846.68

During the Reporting Period, the Group generated a total of 9,857.05 tons of carbon dioxide equivalent (tCO_2e) greenhouse gases (mainly carbon dioxide, methane and nitrous oxide), which was 28.8% lower than FY2018.

The Group is committed to reducing the emission. The Group has established the procedures regarding to the management of emissions to the atmosphere. The Group has taken the following measures to mitigate the emissions:

- Keep company fleet properly tuned;
- Ensure no idling vehicles with running engines; and
- Inspect and maintain plants, machines and electric generators periodically.

Waste Management

The wastes in respect to the Group's operation mainly consist of paper, plastic, glass, and kitchen waste. To raise awareness on the waste issues, the Group has given advices to the employees on how to reduce 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. The staff's duties include but not limited to the followings:

- Organize and maintain the garbage and recycled waste holding areas;
- Place posters on walls and labeling the type of waste or recyclable on the bin;
- Collect and recycle all used ink-jet cartridges;
- Sort recycled waste into appropriate receptacles; and
- Educate the employees on sorting methods.

The amount of waste recycled for the Reporting Period is summarized in the table below.

Recycled Waste	FY2019 Total volume (in tons)	FY2018 Total volume (in tons)
Paper	**24.74**	184.36

Hazardous and Non-Hazardous Waste Management

The Group has established clear and concrete guidelines on waste management. Wastes are separated into recyclable, hazardous and non-hazardous waste, and are stored separately. The Group has appointed different recyclers in different sites to collect recyclable wastes regularly. 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.

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.

All hazardous waste, are collected and treated by authorized agents who have the qualification to handle hazardous waste. The amount of disposed waste are recorded and matched with contractors' reports to ensure they are entirely disposed in the most appropriate manner.

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.

In addition, employees are reminded regularly to protect the environment through varies channels, including emails, notices and promotion slogan. The Group's non-hazardous wastes, will be used for landfill and are collected by government departments or nominated environmental agencies in compliance with the local regulations.

With the effort to reduce wastes as much as possible, the following table illustrates the amounts of hazardous and non-hazardous wastes during the Reporting Period.

	FY2019 Total volume (in tons)	FY2018 Total volume (in tons)
Hazardous waste	**16.91**	12.92
Non-hazardous waste	**284.76**	27,165.55

Aspect A.2: Use of Resources

The Group is committed to continually monitoring and improving environmental performance as an integral and fundamental part of business strategy and operating methods, as well as complying with relevant government policies and environmental legislations.

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.

Energy

The Group's energy consumption mainly comes directly from electricity in the operation. The following table illustrates the energy consumption by types and volumes during the Reporting Period:

Energy	FY2019 Total volume consumed (kWh)	FY2018 Total volume consumed (kWh)
Electricity	**12,921,100**	9,244,100

Efficient Electricity Use

The Group's operations generated green house gases indirectly by electricity consumed to power our facilities. The Group has committed to minimizing energy usage. The commitments are driven by energy saving intuition. The following measures are implemented by the Group:

- 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.

Packaging

The Group regularly communicates with the customers to minimize the packaging material as the Group aims to protect the environment. Owing to the nature of the Group's business segment, the packaging materials used are mainly plastic, paper and metal. During the Reporting Period, the total amounts of packaging material consumed for finished products are as follows:

Types of material	FY2019 Total quantity consumed (in tons)	FY2018 Total quantity consumed (in tons)
Plastic	**42.2**	21.6
Paper	**19.8**	14.0
Metal	**10.3**	23.4

Aspect A.3: The Environment and Natural Resources

Energy Efficiency Initiative

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.

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 customers, 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.

During the Reporting Period, the total paper consumption of the Group for the use of production and office amounted 36.5 tons.

The followings are the practical guidelines which help the Group to implement a cost-saving, paper reduction program:

- Promote reduction strategies, such as reusing paper that has been printed on one side for draft or internal printing, and sharing printed copies of information in the office rather than printing multiple copies;

- Provide paperless billing options for customers and to impose smart printing modes for staff;

- Encourage the staffs to use electronic communications for directories forms, reports and storage when possible; and

- Recycle all paper, carton box and envelope that have non-confidential information from the Group.

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.

During the Reporting Period, the Group has consumed 66,806 kilolitres of water. In addition, the Group has adopted of the following measures to save water:

- Always turn taps off tightly so they do not drip;
- Collect rainwater in one of the Australia factories;
- Make use of dual-flush toilet to save water;
- Adopt effective water-saving production methods and instruments;
- Use a number of digital printing machines which will eliminate the chemically tainted wastewater during the offset printing process;
- 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 purchase decision.

SOCIAL RESPONSIBILITY

The Group believes building strong and lasting relationship with the employees and suppliers is essential to the on-going commitment as a socially responsible manner. Besides, maintaining an honest and authentic dialogue is indispensable as a responsible organization and partner to the 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 promotion and remuneration of the Group's employees are subject to regularly review. Employees are entitled transportation allowance, long service payment, transportation and accommodation allowance in addition to annual leave and sick leave. Details are set out in the staff handbook, to ensure transparency of information on the employees' responsibilities and rights.

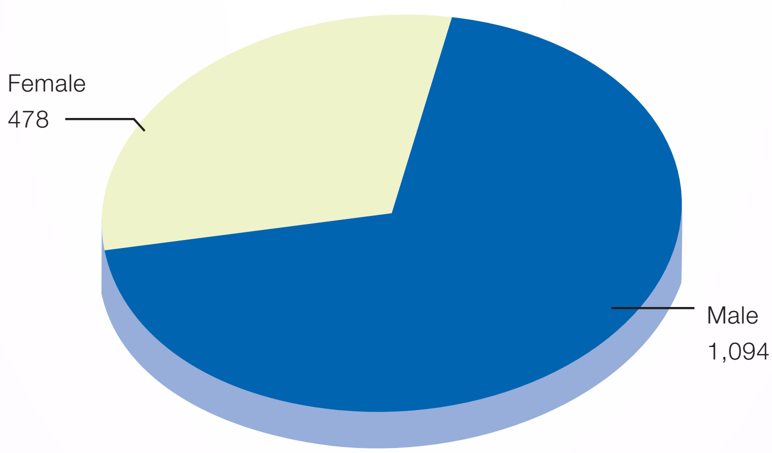
The Group's essential policies and procedures are also included in the staff handbook which will be reviewed and updated regularly. The Group discourages and disallows any behavior that violates the regulations under staff handbook. Offenders will receive warning, and the Group has the right to terminate employment contract with offenders for serious violations. During the Reporting Period, the Group did not find any significant violations of laws and regulation relating to 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 staff handbook outlining the terms and conditions of employment, expectation for employees' conducts and behaviors, employees' rights and benefits. There are policies established and implemented that promote harmony and respectful working environment. With the aim to ensure 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 labor laws in all countries.

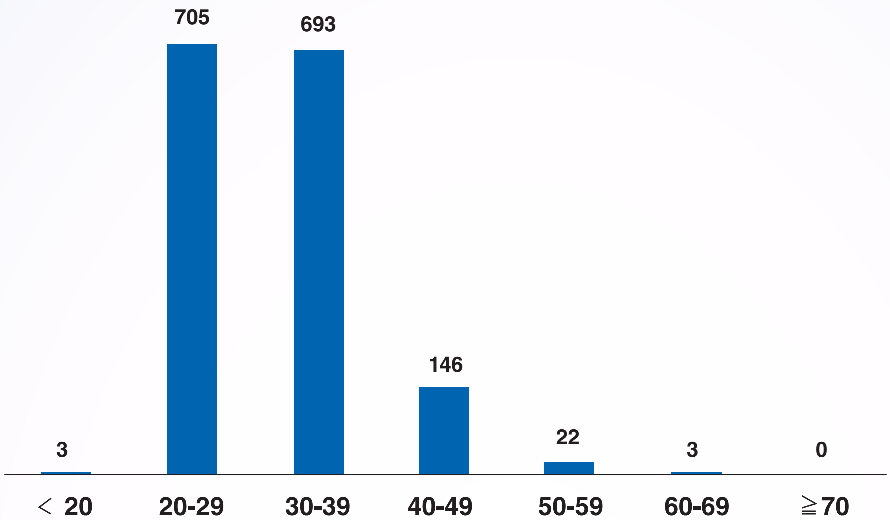
As at 31 March 2019, the Group has 1,572 full-time employees. The following chart sets out a breakdown in percentage of the Group's total employees by gender. In the Reporting Period, 69.6% of the employees in the Group are male staff, which consists of 1,094 employees; while 478 employees are female which represents 30.4% of the total workforce.

Total Workforce by Gender In 2018



In addition, human resources department conducts a comprehensive recruitment review 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 employees; 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, gender, physical or mental health status, marital status, family status, race, skin color, nationality, religion, political affiliation and sexual orientation and other factors.

Total Workforce by Age In 2018



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

During the Reporting Period, 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 complies with all applicable rules and regulations regarding to Occupational Safety and Health (OSH). 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 Reporting Period, 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 no work-related fatalities was noted.

The table set below shows the work-related fatalities and injury statistic for the Reporting Period:

Description	Number
Number of work-related fatalities	–
Number of work-related injuries	32
Lost days due to work-related accidents and disease (occupational)	392

The Group is not aware of any material non-compliance with the above-mentioned relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards during the Reporting Period.

Aspect B3: Development and Training

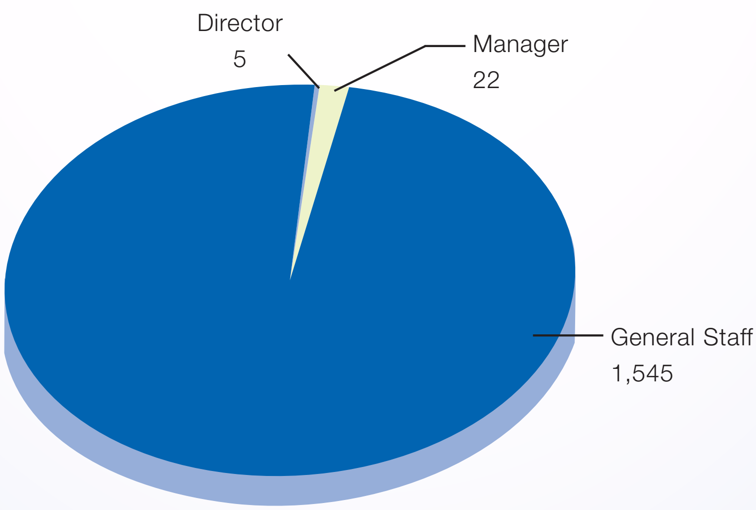
The Group regards the staff as the most valuable assets; The Group dedicates significant resources to attract and retain the talented employees, and to ensure that people will grow along with the business.

To retain the best employees in the 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 the 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.

The diagram sets below illustrates the percentage of employees trained by employee category during the Reporting Period.

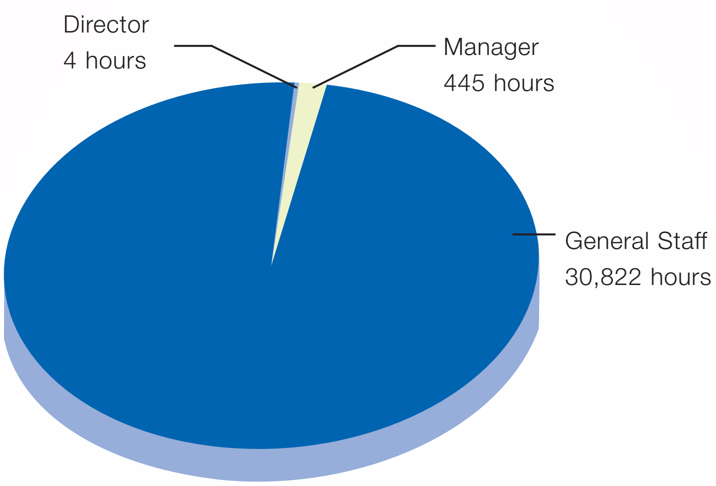
Number of employees trained by Employee Category in 2018



During the Reporting Period, a total number of 1,572 employees have attended the training courses, while 5, 22 and 1,545 of the employees were director, manager and general staff respectively, in which 1,094 of them were male and 478 were female. In addition, on-the-job trainings and off-the-job seminars facilitated by the Management of the Group will be held from time to time. Such sessions will usually provide a detailed explanation and discussion of technical knowledge encountered by the staffs in the recent projects. The Group highly encourages the staffs to attend internal training courses to develop personal skills and expand the knowledge.

The diagram sets below illustrates the training hours by employee category in the Reporting Period.

Training Hours Completed by Employee Category in 2018



During the Reporting Period, the Group has provided 31,281 training hours for all the staffs, which consists of 4, 455 and 30,822 hours for the director, manager and general staff respectively, with an average of 0.80, 20.68 and 19.95 training hours per person.

The Group has provided different kinds of training for the top management and staffs to enhance their level of communication and team building skills.

Furthermore, directors are given with guidance and preparation meetings about the Group's business and his/her duties responsibilities under the Listing Rules and the relevant statutory and regulatory requirements when newly appointed.

The directors will be briefed regularly on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices.

Aspect B4: Labor Standard

The Group established and implemented employment rules 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 Group. Before hiring any job applicant, the 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 consistent with the photograph on the ID card. During the Reporting Period, no violations regarding the age of employment and labor dispute has occurred between the Group and the employees.

OPERATING POLICIES

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 working environment 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.

The Group strives to focus on ethical supply chain management while producing a global supply chains. During the Reporting Period, the Group has 300 suppliers all over the world, which mainly consists of 278, 16 and 6 suppliers from China, Japan and Taiwan respectively.

Furthermore, the Group gradually takes environmental consideration into account in the procurement process. To integrate the environmental vision into the procurement of product supplies, the Group avoids disposable products and chooses suppliers who provide durable products with less packaging materials. Priority will be given to environmentally friendly materials and office goods, so as to raise the suppliers' 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 Reporting Period, the Group did not identify any non-compliance with laws and regulations in relation to product and service quality.

Public Interest and Accountability

For the management of personal data privacy, the Group is committed to protecting privacy and confidentiality of personal data of the customers. The employees are instructed to handle customer information with due care. The Group collects and uses customer information in a responsible and non-discriminatory manner. Only designated employees can assess customer information for business use. They are required to sign non-disclosure agreement upon employment to state that they are not allowed to disclose any information to unauthorized third parties. The Group ensures the goods and services are conducted in a manner consistent with the highest ethical standards. This helps to ensure high products quality at all times to gain the confidences of customers and the public.

Fair and Open Competition

The Group promotes fair and open competition that aims to develop long-term relationships based on mutual trust. The Group ensures that all parties involved in the procurement process participate fairly, honestly and in good faith. The Group recognizes that adherence to the principles of competition is essential to the maintenance of the integrity of the procurement process.

Aspect B7: Anti-corruption

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.

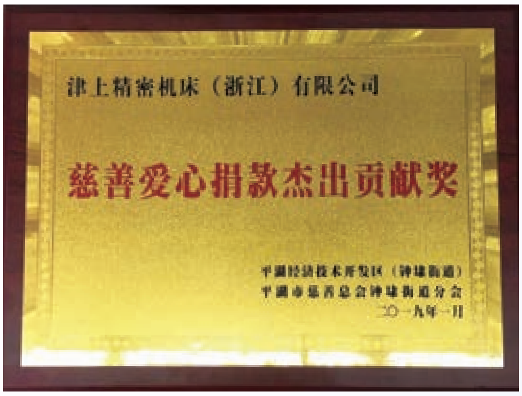
In respect of the Group's operation in the PRC, the Group observes the relevant laws and regulation of Criminal law of the PRC and the Anti-Unfair Competition Law of the PRC. The Group has instruction and directives in relation to anti-corruption, money laundering and fraud.

During the Reporting Period, 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 Reporting Period, the Group has held numbers of activities and events for the employees and the local community.

Donation to the poverty alleviation fund



Donation Day in Nursing Home

The Group has organized charitable activities in nursing home for donation of necessities; during the activities, our employees have donated, sorted and distributed necessities to the elderly people in need.

Donation Day in Primary School

The Group has also organized charitable activities in Yuxin primary school; during the activities, our employees have donated, sorted and distributed stationery to primary school students.

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, the employees have enhanced understanding of consciousness of environmental protection, and ecological awareness, while increasing the number of plants.

SUSTAINABILITY

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

CORPORATE GOVERNANCE

All management level has the responsibilities to maintain a good corporate governance practices. Meetings are held regularly and once the management or the staffs notice any improvement on the corporate practices, the relevant operating practices will be reviewed.

The Board would like to present the annual report and the audited consolidated financial statements for the year ended 31 March 2019 (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 6, in the "Management Discussion and Analysis" on pages 7 to 15 and "Directors' Report – Events After the End of the Year Under Review" on page 63.

Description of the Group's principal risk and uncertainties is set out in the paragraphs headed "Directors' Responsibilities for Financial Statements" on page 32 under the "Corporate Governance Report". Discussions on the environmental policies and performance, compliance by the Group with the 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 37 to 61 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 81 to 83 of this annual report.

The Board recommended the payment of a final dividend of HK$0.15 per share, amounting to approximately HK$57,205,000 (equivalent to approximately RMB49,070,000) in total for the year ended 31 March 2019 to the Shareholders whose names appear on the register of members of the Company as at Wednesday, 28 August 2019.

The payment of the proposed final dividend is subject to approval by Shareholders at the annual general meeting for the Fiscal Year of 2019 (the "**AGM**"). The final dividend is expected to be paid to the Shareholders on Wednesday, 4 September 2019.

EVENTS AFTER THE END OF THE YEAR UNDER REVIEW

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

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 2019, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB361,360,000 (31 March 2018: approximately RMB364,632,000), including retained profits and share premium.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws 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 25 to the Consolidated Financial Statements.

DIRECTORS AND SERVICE AGREEMENTS

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. Manabu Tanaka *(appointed on 17 June 2019)*

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. Takao Nishijima, Ms. Mami Matsushita, Dr. Huang Ping, Dr. Eiichi Koda and Mr. Tam Kin Bor are three years from 25 September 2017, while the term of office of Dr. Li Zequn is three years from 20 August 2018 and the term of office of Mr. Manabu Tanaka is three years from 17 June 2019. 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.

Due to Mr. Nobuaki Takahashi's desire to devote more time to his other business commitments, Mr. Nobuaki Takahashi has resigned from his position as a non-executive Director with effect from 17 June 2019. Mr. Nobuaki Takahashi has confirmed that there is no disagreement with the Board and there are no matters that need to be brought to the attention of the Shareholders or the Stock Exchange in relation to his resignation. Mr. Manabu Tanaka has been appointed as a non-executive Director with effect from 17 June 2019.

Pursuant to article 16.2 of the articles of association, Directors appointed by the Board shall hold office only until the next following general meeting and shall be eligible for re-election. Accordingly, Mr. Manabu Tanaka shall hold office only until the forthcoming general meeting and, being eligible, offers himself for re-election at the forthcoming general meeting.

Pursuant to article 16.18 of the articles of association, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Dr. Tang Donglei, Ms. Mami Matsushita and Dr. Huang Ping will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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 2019, 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	2	0.02%

Note:

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

Except as disclosed above, as at 31 March 2019, 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 2019, 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 held	*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 2019, 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.

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 29 to 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 Year.

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 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 2019, 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	161,000	128,494
2	Master Sales Agreement	957,000	822,676
3	Master Purchase Agreement	503,000	236,523

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 2019 are set out in note 29 to the Consolidated Financial Statements.

The related party transactions disclosed in note 29(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 29(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 disclosure requirements 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

During the Year under Review, 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 2019, 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 44.05% of the total revenue of the Group (2018: 48.0%), while the revenue from the largest customer during the Year accounted for approximately 28.9% of the total revenue of the Group (2018: 27.4%).

During the Year, the purchases from the top five suppliers of the Group accounted for approximately 42.11% of the total purchases of the Group (2018: 47.6%), while the purchases from the largest supplier during the Year accounted for approximately 15.80% of the total purchases of the Group (2018: 18.8%).

During the Year, the largest customer of the Group was Tsugami Japan Group 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 1,572 employees (2018: 1,753) as at 31 March 2019. The following table shows the breakdown of the Group's employees by responsibilities:

	As at 31 March 2019
Management	41
Finance	13
Procurement	18
Technology	155
Customer service	196
Quality verification	10
Operation	111
Manufacture	933
General personnel	25
Shinagawa Precision	70
Total	1,572

Total staff costs for the Year amounted to approximately RMB215,381,000 (2018: RMB172,771,000) 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 values the 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 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, as at the latest practicable date prior to the issue of this annual report, 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 2019. 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, 19 August 2019. 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, 14 August 2019 to Monday, 19 August 2019, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 13 August 2019. In addition, the register of members of the Company will be closed from Monday, 26 August 2019 to Wednesday, 28 August 2019, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 23 August 2019.

CHARITABLE DONATIONS

Charitable donations made by the Group during the Year amounted to RMB200,000 (2018: nil).

FIVE-YEAR FINANCIAL SUMMARY

The summary of the Group's results, assets and liabilities for the latest five financial years is set out on page 158 of this annual report.

BANK LOANS

As at 31 March 2019, the Group has no outstanding bank loans (31 March 2018: nil).

RESERVES

The changes in the reserves of the Group during the Year are set out in note 26 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 2019

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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 81 to 157, which comprise the consolidated statement of financial position as at 31 March 2019, 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 2019, 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 2019 was RMB654 million, against which provision for slow-moving and obsolete inventories amounting to RMB7 million was made. Inventory balances comprise raw materials, work in progress and finished goods. The Group's management reviews the inventory ageing list 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 note 2.4, note 3 and note 16 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 management's assessment by observing the inventory count and the physical condition of the inventories and performing confirmation procedures to verify the inventories held by others at the end of the reporting period; and checking the accuracy of the inventory ageing list, 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. We also assessed the adequacy of the Group's disclosures about the provision for slow-moving and obsolete inventories in the consolidated financial statements.

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 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2019

	Notes	Year ended 31 March 2019 RMB'000	2018 RMB'000
REVENUE	*5*	**2,850,883**	2,314,215
Cost of sales		**(2,138,067)**	(1,842,099)
GROSS PROFIT		**712,816**	472,116
Other income and gains	*5*	**18,157**	8,453
Selling and distribution expenses		**(113,670)**	(98,303)
Administrative expenses		**(128,872)**	(71,293)
Other expenses		**(3,726)**	(29,794)
Impairment losses on financial assets		**(1,008)**	–
Finance costs	*7*	**–**	(10,466)
PROFIT BEFORE TAX	*6*	**483,697**	270,713
Income tax expense	*10*	**(116,092)**	(76,623)
PROFIT FOR THE YEAR		**367,605**	194,090
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**367,605**	194,090
ATTRIBUTABLE TO:			
Owners of the parent		**367,605**	194,090

	Notes	Year ended 31 March 2019 RMB	2018 RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	*12*	**0.96**	0.57
Diluted			
– For profit for the year	*12*	**0.96**	0.57

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2019

	Notes	As at 31 March 2019 RMB'000	 2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**346,093**	324,741
Prepaid land lease payments	*14*	**42,235**	32,906
Intangible assets	*15*	**3,936**	3,644
Deferred tax assets	*23*	**8,664**	7,428
Total non-current assets		**400,928**	368,719
CURRENT ASSETS			
Inventories	*16*	**647,303**	503,542
Trade and notes receivables	*17*	**499,345**	614,443
Prepayments, other receivables and other assets	*18*	**14,362**	17,279
Pledged deposits	*19*	**14,627**	12,758
Cash and cash equivalents	*19*	**400,275**	321,760
Total current assets		**1,575,912**	1,469,782
CURRENT LIABILITIES			
Trade and notes payables	*20*	**384,866**	456,416
Other payables and accruals	*21*	**133,076**	176,748
Tax payable		**14,939**	26,485
Provision	*22*	**12,791**	11,132
Total current liabilities		**545,672**	670,781
NET CURRENT ASSETS		**1,030,240**	799,001
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,431,168**	1,167,720

continued/

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

31 March 2019

	Notes	As at 31 March 2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*23*	**2,126**	3,925
Deferred income	*24*	**13,000**	–
Total non-current liabilities		**15,126**	3,925
NET ASSETS		**1,416,042**	1,163,795
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*25*	**320,312**	320,312
Reserves	*26*	**1,095,730**	843,483
Total equity		**1,416,042**	1,163,795

Tang Donglei
Director

Li Zequn
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2019

	Attributable to owners of the parent						
	Issued capital RMB'000 *Note 25*	Merger reserve* RMB'000 *Note 26*	Share premium reserve* RMB'000 *Note 26*	Share option reserve* RMB'000	Statutory reserve fund* RMB'000 *Note 26*	Retained profits* RMB'000	Total RMB'000
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
Dividend 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

	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**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**367,605**	**367,605**
Dividend distribution	**–**	**–**	**–**	**–**	**–**	**(120,094)**	**(120,094)**
Transfer from retained profits	**–**	**–**	**–**	**–**	**36,914**	**(36,914)**	**–**
Adjustments of share issue expenses	**–**	**–**	**4,736**	**–**	**–**	**–**	**4,736**
At 31 March 2019	**320,312**	**(39,964)**	**354,688**	**–**	**118,704**	**662,302**	**1,416,042**

* These reserve accounts comprise the consolidated reserves of RMB1,095,730,000 (2018: RMB843,483,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2019

	Notes	Year ended 31 March 2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**483,697**	270,713
Adjustments for:			
Finance costs	*6 & 7*	**–**	10,466
Bank interest income	*6*	**(3,096)**	(1,588)
Net loss on disposal of items of property, plant and equipment	*5 & 6*	**2,301**	15,171
Depreciation	*6*	**41,957**	41,642
Recognition of prepaid land lease payments	*6*	**1,073**	896
Amortisation of intangible assets	*6*	**944**	505
Impairment of trade and notes receivables	*6*	**981**	–
Impairment of financial assets included in prepayments, other receivables and other assets	*6*	**27**	–
		527,884	337,805
Increase in pledged deposits for notes payable		**(1,869)**	(5,828)
Increase in inventories		**(143,761)**	(23,667)
Decrease/(increase) in trade and notes receivables		**114,117**	(227,148)
Decrease/(increase) in prepayments, other receivables and other assets		**3,101**	(1,788)
(Decrease)/increase in trade and notes payables		**(71,550)**	98,139
(Decrease)/increase in other payables and accruals		**(5,769)**	93,401
Decrease in contract liabilities		**(33,167)**	–
Increase in provisions		**1,659**	2,649
Increase in deferred income		**13,000**	–
Cash generated from operations		**403,645**	273,563
Income taxes paid		**(130,673)**	(69,465)
Net cash flows from operating activities		**272,972**	204,098

continued/

	Notes	Year ended 31 March 2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		3,096	1,588
Purchases of items of property, plant and equipment		(66,948)	(40,134)
Proceeds from disposal of items of property, plant and equipment		1,338	801
Purchase of items of intangible assets		(1,236)	(1,309)
Increase of prepaid land lease payments		(10,613)	–
Net cash flows used in investing activities		(74,363)	(39,054)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		–	331,403
New interest-bearing bank loans and other borrowings		–	298,135
Repayment of interest-bearing bank loans and other borrowings		–	(572,664)
Dividends paid		(120,094)	(13,595)
Interest paid		–	(10,466)
Net cash flows (used in)/from financing activities		(120,094)	32,813
NET INCREASE IN CASH AND CASH EQUIVALENTS		78,515	197,857
Cash and cash equivalents at beginning of year		321,760	123,903
CASH AND CASH EQUIVALENTS AT END OF YEAR		400,275	321,760
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	19	400,275	321,760

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 ("**the Controlling Shareholder**"), which is incorporated in Japan and listed on the 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	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Precision Tsugami (Hong Kong) Limited *(note(a))* ("**Tsugami HK**")	24 September 2013 Hong Kong, China	HK$767,718,112	100	–	Investment holding
津上精密機床 (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
浙江品川精密機械有限公司 *(note(b))* Shinagawa Precision Machinery (Zhejiang) Co., Ltd.* ("**Shinagawa Precision**")	24 November 2010 Zhejiang, China	RMB35,000,000	–	100	Manufacture and sale of precision machine tool castings
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 consultation service
安徽津上精密機床有限公司 *(note(b)/(c))* Precision Tsugami (Anhui) Corporation* ("**Tsugami Anhui**")	18 April 2018 Anhui, China	RMB50,000,000	–	100	Manufacture and sale of precision machine tool castings

1. CORPORATE INFORMATION (Continued)

Notes:

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

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

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

(c) Tsugami Anhui was established on 18 April 2018 in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("**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 2019. 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 new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than as explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 April 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 April 2018 is as follows:

		IAS 39 measurement			IFRS 9 measurement		
	Note	**Category**	**Amount**	**Re-classification**	**ECL**	**Amount**	**Category**
			RMB'000	RMB'000	RMB'000	RMB'000	
Financial assets							
Trade and notes receivables	*(i)*	L&R[1]	614,443	–	–	614,443	AC[2]
Financial assets included in prepayments, other receivables and other assets		L&R	3,839	–	–	3,839	AC
Pledged deposits		L&R	12,758	–	–	12,758	AC
Cash and cash equivalents		L&R	321,760	–	–	321,760	AC
Total assets			952,800	–	–	952,800	
Financial liabilities							
Trade payables and notes payables		AC	456,416	–	NA	456,416	AC
Financial liabilities included in other payables and accruals		AC	34,262	–	NA	34,262	AC
Total liabilities			490,678	–	NA	490,678	

[1]L&R: Loans and receivables
[2]AC: Financial assets or financial liabilities at amortised cost

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

Classification and measurement (Continued)

Note:

(i) The gross carrying amounts of the trade and notes receivables under the column "IAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(b) to the financial statements.

Impairment

The impact of transition on the opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9 is not material.

Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is not material.

(b) IFRS 15 and its amendments *replace IAS 11 Construction Contracts, IAS 18 Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. 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 recognising 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 disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 April 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 April 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (Continued)

The impact of adoption of IFRS 15 is described below:

(i) Consideration received from customers in advance

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables. Under IFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB96,039,000 from other payables to contract liabilities as at 1 April 2018 in relation to the consideration received from customers in advance as at 1 April 2018.

As at 31 March 2019, under IFRS 15, RMB62,872,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of CNC machines.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for 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 described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 April 2020.

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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 April 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 April 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. For the year ended 31 March 2019, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB2,528,000 and lease liabilities of RMB2,528,000 will be recognised at 1 April 2019.

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 April 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 April 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 April 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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 (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or 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

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. 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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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	4.5%-9.0%
Plant and machinery	9.0%
Instruments and tools	18.0%
Furniture, fixtures and office equipment	18.0%-30.0%
Motor vehicles	18.0%-22.5%

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 plant or machinery under construction, which is 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.

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 softwares 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. Research and development costs which do not meet these criteria are 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 (policies under IFRS 9 applicable from 1 April 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 April 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

The subsequent measurement of financial assets depends on their classification as follows:.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 April 2018)

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. 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

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 April 2018 and policies under IAS 39 applicable before 1 April 2018)

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.

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 (policies under IFRS 9 applicable from 1 April 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 April 2018) (Continued)

General approach

ECLs are recognised in two measurement bases. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs as detailed below:

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under IAS 39 applicable before 1 April 2018)

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).

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 other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 April 2018 and IAS 39 applicable before 1 April 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate.

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

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and 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.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 April 2018 and IAS 39 applicable before 1 April 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 April 2018 and IAS 39 applicable before 1 April 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

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.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition (applicable from 1 April 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 April 2018) (Continued)

Revenue from contracts with customers (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

(b) Rendering of services

Revenue from the rendering of services is recognised at the point in time when the services are rendered.

Other income

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable before 1 April 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when 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, on the percentage of completion basis;

(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.

Contract assets (applicable from 1 April 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 April 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 April 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract costs (applicable from 1 April 2018) (Continued)

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Employee benefits

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in Renminbi ("**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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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 the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the 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) Provision for expected credit losses on trade and notes receivables

The Group uses a provision matrix to calculate ECLs for trade and notes receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns according to sales type, customer type and rating.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and notes receivables is disclosed in note 17 to the financial statements.

(ii) 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)

(iii) 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 2019 was RMB346,093,000 (2018: RMB324,741,000), details of which are set out in note 13.

(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 2019 was RMB647,303,000 (2018: RMB503,542,000), details of which are set out in note 16.

(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 2019 was RMB8,664,000 (2018: RMB7,428,000), details of which are set out in note 23.

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	
	2019	2018
	RMB'000	RMB'000
Mainland China	**1,973,516**	1,646,629
Overseas	**877,367**	667,586
	2,850,883	2,314,215

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	
	2019	2018
	RMB'000	RMB'000
Customer A *(Note 29(b))*	**793,863**	619,631

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 March	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of goods	**2,847,441**	2,311,052
Rendering of services	**3,442**	3,163
	2,850,883	2,314,215

(i) Disaggregated revenue information

For the year ended 31 March 2019

	Total
	RMB'000
Type of goods or services	
Sale of goods	**2,847,441**
Precision lathes	**2,441,490**
Precision grinding machines	**150,887**
Precision machining centers	**108,745**
Other components	**130,488**
Precision thread and form rolling machines	**15,831**
Rendering of services	**3,442**
	2,850,883

	Total
	RMB'000
Geographical markets	
Mainland China	**1,973,516**
Overseas	**877,367**
	2,850,883

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 March 2019 (Continued)

	Total RMB'000
Timing of revenue recognition	
Goods transferred at a point in time	2,847,441
Services rendered at a point in time	3,442
	2,850,883

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

	Total RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	96,039

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

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(ii) Performance obligations

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

Sale of products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required.

Rendering of services

The performance obligation is satisfied upon delivery of the promised service to the customers and payment is generally due within 15 to 30 days from delivery.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 March 2019 are as follows:

	Total RMB'000
Within one year	**62,872**

An analysis of the other income and gains is as follows:

	Year ended 31 March	
	2019 RMB'000	2018 RMB'000
Other income and gains		
Bank interest income	**3,096**	1,588
Gain on disposal of items of property, plant and equipment	**–**	159
Government grants	**3,943**	5,326
Compensation income	**188**	793
Gain on foreign exchange	**10,462**	24
Others	**468**	563
	18,157	8,453

6. PROFIT BEFORE TAX

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

		Year ended 31 March	
		2019	2018
	Notes	**RMB'000**	RMB'000
Cost of inventories sold		**2,138,067**	1,842,099
Depreciation	*13*	**41,957**	41,642
Amortisation of intangible assets*	*15*	**944**	505
Research and development costs		**74,459**	16,632
Minimum lease payments under operating leases		**5,487**	4,002
Recognition of prepaid land lease payments	*14*	**1,073**	896
Auditor's remuneration			
– Annual audit		**1,370**	1,200
– Listing fees expensed off		**–**	1,719
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**178,683**	149,906
Pension scheme contributions		**13,052**	9,773
Social security contributions and accommodation benefits		**23,646**	13,092
Foreign exchange loss, net		**(10,462)**	11,471
Impairment of financial assets, net:			
Impairment of trade and notes receivables	*17*	**981**	–
Impairment of financial assets included in prepayments, other receivables and other assets	*18*	**27**	–
Bank interest income	*5*	**(3,096)**	(1,588)
Interest on interest-bearing bank loans and discounted notes	*7*	**–**	10,466
Loss on disposal of items of property, plant and equipment		**2,301**	15,330

* 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:

	Year ended 31 March	
	2019	2018
	RMB'000	RMB'000
Finance costs		
Interest on interest-bearing bank loans	**–**	5,645
Interest on discounted notes	**–**	4,821
	–	10,466

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:

	Year ended 31 March	
	2019	2018
	RMB'000	RMB'000
Fees	**2,248**	2,335
Other emoluments:		
Salaries, allowances and benefits in kind	**3,465**	2,914
	5,713	5,249

(a) Independent non-executive directors

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

	Year ended 31 March	
	2019	2018
	RMB'000	RMB'000
Dr. Huang Ping	**412**	317
Dr. Eiichi Koda	**412**	317
Mr. Tam Kin Bor	**412**	317
	1,236	951

There were no other emoluments payable to the independent non-executive directors during the Year (2018: 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	Total RMB'000
Year ended 31 March 2019			
Executive directors:			
– Dr. Li Zequn[1]	–	1,183	1,183
– Mr. Yoshimasa Hashimoto (retired as an executive director on 20 August 2018)	–	239	239
Non-executive directors:			
– Mr. Takao Nishijima	–	–	–
– Ms. Mami Matsushita	240	–	240
– Mr. Nobuaki Takahashi[2]	–	–	–
– Mr. Tatsushi Hidano[4] (retired as a non-executive director on 20 August 2018)	–	–	–
– Dr. Ng Lai Man Carmen[4] (retired as a non-executive director on 20 August 2018)	772	–	772
Chief executive:			
– Dr. Tang Donglei	–	2,043	2,043
	1,012	3,465	4,477
Year ended 31 March 2018			
Executive director:			
– Mr. Yoshimasa Hashimoto[3]	–	392	392
Non-executive directors:			
– Mr. Takao Nishijima	–	–	–
– Ms. Mami Matsushita	231	–	231
– Mr. Tatsushi Hidano[4]	–	613	613
– Dr. Ng Lai Man Carmen[4]	1,153	–	1,153
Chief executive :			
– Dr. Tang Donglei	–	1,909	1,909
	1,384	2,914	4,298

1 Dr. Li Zequn was appointed as an executive director of the Company on 20 August 2018.
2 Mr. Nobuaki Takahashi was appointed as a non-executive director of the Company on 20 August 2018.
3 Mr. Yoshimasa Hashimoto retired as an executive director of the Company on 20 August 2018.
4 Mr. Tatsushi Hidano and Dr. Ng Lai Man Carmen retired as non-executive directors of the Company on 20 August 2018.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Year included one director (2018: two), details of whose remuneration are set out in note 8 above. Details of the remuneration during the Year of the remaining four (2018: three) 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 (excluding directors) within the Group during the Year is as follows:

	Year ended 31 March	
	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**4,732**	3,230

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

	Year ended 31 March	
	2019	2018
HK$1,000,001 to HK$1,500,000	**4**	3

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 directors and 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.

Hong Kong profits tax is to be provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong. 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% (2018: 25%) of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 (the "**New Corporate Income Tax Law**").

10. INCOME TAX EXPENSE (Continued)

The major components of income tax expense are as follows:

	Year ended 31 March	
	2019	2018
	RMB'000	RMB'000
Current tax	**119,127**	77,237
Deferred tax *(note 23)*	**(3,035)**	(614)
Total tax charge for the year	**116,092**	76,623

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	
	2019	2018
	RMB'000	RMB'000
Profit before tax	**483,697**	270,713
Tax at the statutory tax rate	**119,354**	67,678
Adjustments in respect of current tax of previous periods	**(3,881)**	–
Expenses not deductible for tax	**377**	3,652
Tax losses not recognised	**25**	–
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**10,001**	5,934
Research and development super deduction	**(9,784)**	(641)
Total tax charge at the Group's effective rate	**116,092**	76,623

11. DIVIDENDS

	Year ended 31 March	
	2019	2018
	RMB'000	RMB'000
Final dividends paid for the year ended 31 March 2018		
– HK$0.16 per ordinary share		
(2018: dividends paid to the Controlling Shareholder)	**53,024**	13,595
Interim dividends paid for the six months ended 30 September 2018		
– HK$0.2 per ordinary share (2018: Nil)	**67,070**	–
	120,094	13,595

On 27 June 2019, the Board of the directors declared the payment of a final dividend of HK$0.15 per share, amounting to HK$57,205,000 (equivalent to approximately RMB49,070,000) for the year ended 31 March 2019. The source of the proposed dividend payment is scheduled to consist of the following: 1) investment income of RMB18,900,000 to be distributed from the subsidiaries of the Company; 2) usage of retained profits of RMB6,672,000 of the Company at the end of year; and 3) usage of share premium reserve of RMB23,498,000 of the Company. 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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 381,370,000 (2018: 338,727,671) in issue during the Year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Year ended 31 March	
	2019	2018
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**367,605**	194,090
Shares		
Number of shares for the purpose of basic earnings per share calculation	**381,370,000**	338,727,671
Number of shares for the purpose of diluted earnings per share calculation	**381,370,000**	338,727,671

13. PROPERTY, PLANT AND EQUIPMENT

	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 2018 and 1 April 2018	216,336	301,275	13,907	5,429	6,164	20,188	563,299
Additions	5,981	11,855	1,653	951	2,210	44,298	66,948
Transfers	59,542	4,625	–	–	–	(64,167)	–
Disposals	(6,099)	(3,255)	(136)	(224)	(1,171)	–	(10,885)
At 31 March 2019	275,760	314,500	15,424	6,156	7,203	319	619,362
Accumulated depreciation:							
At 31 March 2018 and 1 April 2018	70,312	149,987	9,703	4,431	4,125	–	238,558
Charge for the year	12,615	26,552	1,374	537	879	–	41,957
Disposals	(4,112)	(1,887)	(123)	(190)	(934)	–	(7,246)
At 31 March 2019	78,815	174,652	10,954	4,778	4,070	–	273,269
Net carrying amount:							
At 31 March 2018	146,024	151,288	4,204	998	2,039	20,188	324,741
At 31 March 2019	196,945	139,848	4,470	1,378	3,133	319	346,093

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 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 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

As at 31 March 2019, no property, plant and equipment of the Group were pledged to secure the Group's bank borrowings (31 March 2018: Nil).

14. PREPAID LAND LEASE PAYMENTS

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Carrying amount at beginning of the year	**33,803**	34,699
Additions	**10,613**	–
Recognised during the Year	**(1,073)**	(896)
Carrying amount at end of the year	**43,343**	33,803
Current portion, included in prepayments, other receivables and other assets *(note 18)*	**(1,108)**	(897)
Non-current portion	**42,235**	32,906

15. INTANGIBLE ASSETS

	Golf membership RMB'000	Software RMB'000	Licence RMB'000	Total RMB'000
Cost:				
At 31 March 2018 and 1 April 2018	1,330	3,023	307	4,660
Additions	–	1,236	–	1,236
At 31 March 2019	1,330	4,259	307	5,896
Accumulated amortisation:				
At 31 March 2018 and 1 April 2018	–	709	307	1,016
Amortisation	–	944	–	944
At 31 March 2019	–	1,653	307	1,960
Net book value:				
At 31 March 2018	1,330	2,314	–	3,644
At 31 March 2019	1,330	2,606	–	3,936

15. INTANGIBLE ASSETS (Continued)

	Golf membership RMB'000	Software RMB'000	Licence RMB'000	Total RMB'000
Cost:				
At 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 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

16. INVENTORIES

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Raw materials	**206,467**	184,384
Work in progress	**207,944**	183,932
Finished goods	**232,892**	135,226
	647,303	503,542

17. TRADE AND NOTES RECEIVABLES

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Trade receivables*	**165,152**	236,130
Notes receivable	**335,174**	378,313
Impairment	**(981)**	–
	499,345	614,443

* Trade receivables include trade receivables from the Controlling Shareholder and other related parties (note 29).

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.

17. TRADE AND NOTES RECEIVABLES (Continued)

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

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**144,776**	201,653
3 months to 6 months	**20,376**	34,477
	165,152	236,130

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

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**–**	–
Impairment losses *(note 6)*	**981**	–
At the end of the year	**981**	–

Impairment under IFRS 9 for the year ended 31 March 2019

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

17. TRADE AND NOTES RECEIVABLES (Continued)

Impairment under IFRS 9 for the year ended 31 March 2019 (Continued)

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

As at 31 March 2019

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate	0.196%	–	–	–	0.196%
Gross carrying amount *(RMB'000)*	500,326	–	–	–	500,326
Expected credit losses *(RMB'000)*	981	–	–	–	981

Impairment under IAS 39 for the year ended 31 March 2018

The ageing analysis of the trade receivables as at 31 March 2018 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	As at 31 March 2018 RMB'000
Neither past due nor impaired	235,566
Past due but not impaired	564
	236,130

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Prepayments	**7,982**	12,543
Current portion of prepaid land lease payments *(note 14)*	**1,108**	897
Other receivables and other assets	**5,299**	3,839
	14,389	17,279
Impairment allowance	**(27)**	–
	14,362	17,279

Other receivables and other assets mainly represent rental deposits and deposits with suppliers. An impairment analysis is performed at each reporting date, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 March 2019 was 0.5%.

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

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Cash and bank balances	**414,902**	334,518
Less: Pledged deposits for notes payable	**(14,627)**	(12,758)
Cash and cash equivalents	**400,275**	321,760
Denominated in RMB	**396,945**	190,046
Denominated in JPY	**8,573**	1,406
Denominated in HK$	**9,384**	143,066
Cash and bank balances and pledged deposits	**414,902**	334,518

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates 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.

20. TRADE AND NOTES PAYABLES

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Trade payables*	**254,619**	334,322
Notes payable	**130,247**	122,094
	384,866	456,416

* Trade payables include trade payables to the Controlling Shareholder (note 29).

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	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**254,215**	334,235
Over 3 months	**404**	87
	254,619	334,322

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

21. OTHER PAYABLES AND ACCRUALS

		As at 31 March	
		2019	2018
		RMB'000	RMB'000
Payroll and welfare accruals		**19,430**	16,033
Contract liabilities	(a)	**62,872**	–
Other payables	(b)	**38,468**	34,262
Accruals		**12,306**	14,087
Advances from customers		**–**	112,366
		133,076	176,748

Notes:

(a) Details of contract liabilities as at 31 March 2019 and 1 April 2018 are as follows:

	As at	
	31 March 2019	1 April 2018
	RMB'000	RMB'000
Short-term advances received from customers		
Sale of goods	**62,872**	96,039

Contract liabilities include short-term advances received to deliver CNC high precision machine tools. The decrease in contract liabilities in this fiscal year was mainly due to the decrease in short-term advances received from customers in relation to the sale of CNC high precision machine tools at the end of the year.

(b) Other payables are unsecured, non-interest-bearing and repayable on demand.

22. PROVISIONS

	Warranties RMB'000
At 31 March 2018	11,132
Additional provision charged to profit or loss during the Year	8,316
Amounts utilised during the Year	(6,657)
At 31 March 2019	**12,791**
Analysis of total provisions	
Current	12,791
Non-current	–
	12,791

The Group provides one or three-year warranties to its customers on certain of its precision CNC machines, 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.

23. DEFERRED TAX

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

Deferred tax assets	Accruals RMB'000	Inventory provision RMB'000	Provision for Receivables RMB'000	Tax losses RMB'000	Total RMB'000
Deferred tax assets at 1 April 2017	3,658	1,723	–	–	5,381
Deferred tax charged to profit or loss during the Year	1,524	434	–	89	2,047
Deferred tax assets at 31 March 2018 and 1 April 2018	5,182	2,157	–	89	7,428
Deferred tax charged/(credited) to profit or loss during the Year	1,042	(328)	252	270	1,236
Deferred tax assets at 31 March 2019	**6,224**	**1,829**	**252**	**359**	**8,664**

Deferred tax liabilities

	Withholding tax RMB'000
Deferred tax liabilities at 1 April 2017	2,492
Deferred tax credited to profit or loss during the Year	1,433
Deferred tax liabilities at 31 March 2018 and 1 April 2018	3,925
Deferred tax charged to profit or loss during the Year	(1,799)
Deferred tax liabilities at 31 March 2019	**2,126**

23. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

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, 2019, 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 RMB639,944,000 (2018: RMB406,588,000). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

24. DEFERRED INCOME

Deferred income represents unconditional government grants received in respect of property, plant and equipment activities. The movements in deferred income during the Year are as follows:

	Government grants RMB'000
At 31 March 2018	–
Additions during the Year	13,000
At 31 March 2019	**13,000**

25. ISSUED CAPITAL

Shares

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Authorised: 1,000,000,000 ordinary shares of HK$1.00 each	**1,000,000**	1,000,000

	As at 31 March	
	2019	2018
	HK$'000	HK$'000
Issued and fully paid: 381,370,000 ordinary shares of HK$1.00 each	**381,370**	381,370

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital HK$'000**
As at 1 April 2017	3	–
Effect of capital reserves converted to equity on 4 September 2017	299,999,997	300,000
Effect of shares issued on 25 September 2017	60,000,000	60,000
Effect of over-allotment share options on 13 October 2017	13,500,000	13,500
Effect of exercise of share options on 15 January 2018 and 23 January 2018	7,870,000	7,870
As at 31 March 2018 and 31 March 2019	**381,370,000**	**381,370**

26. RESERVES

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

Merger reserve

The merger reserve represents those reserves arising from the reorganisation 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.

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.

27. 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 2019, the Group had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Within one year	**3,238**	4,442
In the second to fifth years, inclusive	**401**	1,943
	3,639	6,385

28. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 27 above, the Group had the following capital commitments at the end of the reporting period:

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**1,801**	77,100

29. 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

29. RELATED PARTY TRANSACTIONS (Continued)

(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 2019 RMB'000	2018 RMB'000
Sales of goods to			
Tsugami Corporation *(Note 4)*	*(i)*	**793,863**	619,631
Tsugami Korea Co., Ltd.	*(i)*	**28,813**	14,909
		822,676	634,540
Purchases of materials from			
Tsugami Corporation	*(i)*	**229,065**	286,554
Licence fee to			
Tsugami Corporation	*(i)*	**127,454**	106,342
Service fee to			
Tsugami Corporation	*(i)*	**8,498**	9,536

Note:

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

29. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with related parties

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Amount due from the Controlling Shareholder		
Tsugami Corporation		
Trade receivables	**50,788**	73,892
Amount due from a company controlled by the Controlling Shareholder		
Tsugami Korea Co., Ltd.		
Trade receivables	**11,857**	2,398
Amounts due to the Controlling Shareholder		
Tsugami Corporation		
Trade payables	**35,196**	64,900
Other payables	**50**	50
	35,246	64,950

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

(d) Compensation of key management personnel

	Year ended 31 March	
	2019	2018
	RMB'000	RMB'000
Other emoluments:		
Salaries, allowances and benefits in kind	**3,850**	4,130

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

(e) Connected transactions

The transactions disclosed in item (b)(i) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	As at 31 March 2019
	Financial assets at amortised cost RMB'000
Trade and notes receivables	499,345
Financial assets included in prepayments, other receivables, and other assets	5,299
Pledged deposits	14,627
Cash and cash equivalents	400,275
Total	919,546

Financial liabilities

	As at 31 March 2019
	Financial liabilities at amortised cost RMB'000
Trade and notes payables	384,866
Financial liabilities included in other payables and accruals	38,468
Total	423,334

30. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets

	As at 31 March 2018 Financial assets at amortised cost RMB'000
Trade and notes receivables	614,443
Financial assets included in prepayments, other receivables and other assets	3,839
Pledged deposits	12,758
Cash and cash equivalents	321,760
Total	952,800

Financial liabilities

	As at 31 March 2018 Financial liabilities at amortised cost RMB'000
Trade and notes payables	456,416
Financial liabilities included in other payables and accruals	34,262
Total	490,678

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and time deposits. 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 notes receivables and trade and notes payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, liquidity risk and credit risk. The Group does not have or issue derivative financial instruments either for holding or for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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 2019 and 2018 to a reasonably possible change in the foreign exchange rates due to changes in fair values of monetary assets and liabilities, with all other variables held constant, of the Group's profit before tax.

32. 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 2019		
If RMB weakens against JPY	**5%**	**944**
If RMB strengthens against JPY	**5%**	**(944)**
If RMB weakens against US$	**5%**	**(40)**
If RMB strengthens against US$	**5%**	**40**
If RMB weakens against HK$	**5%**	**212**
If RMB strengthens against HK$	**5%**	**(212)**
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)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed facilities from banks to meet its commitments over the foreseeable future in accordance with its strategic plan.

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:

	On demand RMB'000	Within 1 year RMB'000	Within 1 to 2 years RMB'000	Total RMB'000
31 March 2019				
Trade and notes payables	**–**	**384,866**	**–**	**384,866**
Financial liabilities included in other payables and accruals	**38,468**	**–**	**–**	**38,468**
	38,468	**384,866**	**–**	**423,334**
31 March 2018				
Trade and notes 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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 52.72% of the Group's trade receivables were due from the Group's Controlling Shareholder and the largest third-party customer as at 31 March 2019 (31 March 2018: 54.35%).

Maximum exposure and year-end staging as at 31 March 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 March 2019. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and notes receivables*	–	–	–	499,345	499,345
Financial assets included in prepayments, other receivables and other assets					
– Normal**	4,450	849	–	–	5,299
– Doubtful**	–	–	–	–	–

* For trade and notes receivables to which the Group applies the general approach for impairment, information based on the provision matrix is disclosed in note 17 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure as at 31 March 2018

Substantial amounts of the Group's cash and cash equivalents are held in major reputable financial institutions located in Mainland China, which management believes are of high credit quality. The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and trade receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

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.

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 as at 31 March 2019 and 2018 are as follows:

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Group

	As at 31 March	
	2019	2018
	RMB'000	RMB'000
Interest-bearing bank loans and other borrowings	**–**	–
Less: Cash and cash equivalents	**(400,275)**	(321,760)
Net debt	**N/A**	N/A
Total equity	**1,416,042**	1,163,795
Net debt to equity ratio	**N/A**	N/A

33. EVENTS AFTER THE REPORTING PERIOD

No significant events took place after the reporting period.

34. 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	
	2019	2018
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**561,494**	561,494
Debt instrument at amortised cost	**74,800**	–
	636,294	561,494
CURRENT ASSETS		
Prepayments, other receivables and other assets	**1,350**	–
Debt instrument at amortised cost	**43,000**	–
Cash and cash equivalents	**8,177**	141,693
	52,527	141,693
CURRENT LIABILITIES		
Amount due to a subsidiary	**–**	4,765
Other payables and accruals	**7,149**	13,478
	7,149	18,243
NET CURRENT ASSETS	**45,378**	123,450
TOTAL ASSETS LESS CURRENT LIABILITIES	**681,672**	684,944
Net assets	**681,672**	684,944
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**320,312**	320,312
Reserves *(note)*	**361,360**	364,632
Total equity	**681,672**	684,944

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

Note:

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

	Issued capital RMB'000	Share premium reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 April 2017	–	329,406	9,455	62	338,923
Transfer of shares 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
Dividend distribution	–	–	–	(13,595)	(13,595)
Transfer from retained profits	–	–	–	28,213	28,213
At 31 March 2018 and 1 April 2018	320,312	349,952	–	14,680	684,944
Total comprehensive income for the year	–	–	–	112,086	112,086
Adjustments of share Issue expenses	–	4,736	–	–	4,736
Dividend distribution	–	–	–	(120,094)	(120,094)
At 31 March 2019	**320,312**	**354,688**	**–**	**6,672**	**681,672**

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 June 2019.

FIVE YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 March				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**2,850,883**	2,314,215	1,636,281	1,357,465	2,057,730
Cost of sales	**(2,138,067)**	(1,842,099)	(1,345,080)	(1,140,356)	(1,649,734)
GROSS PROFIT	**712,816**	472,116	291,201	217,109	407,996
Other income and gains	**18,157**	8,453	3,957	11,922	18,746
Selling and distribution expenses	**(113,670)**	(98,303)	(76,846)	(68,199)	(88,396)
Administrative expenses	**(128,872)**	(71,293)	(41,527)	(47,225)	(60,988)
Other expenses	**(3,726)**	(29,794)	(3,795)	(17,078)	(3,098)
Impairment losses on financial assets	**(1,008)**	–	–	–	–
Finance costs	**–**	(10,466)	(13,060)	(18,311)	(20,961)
PROFIT BEFORE TAX	**483,697**	270,713	159,930	78,218	253,299
Income tax expense	**(116,092)**	(76,623)	(47,364)	(22,410)	(75,004)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**367,605**	194,090	112,566	55,808	178,295
ATTRIBUTABLE TO:					
Owners of the parent	**367,605**	194,090	112,566	55,808	178,295

CONSOLIDATED ASSETS AND LIABILITIES

	Year ended 31 March				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,976,840**	1,838,501	1,397,738	1,145,472	1,395,064
TOTAL LIABILITIES	**(560,798)**	(674,706)	(745,841)	(580,019)	(869,432)
TOTAL EQUITY	**1,416,042**	1,163,795	651,897	565,453	525,632