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

2019-2020
Annual Report

PRECISION
TSUGAMI
CHINA

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 17 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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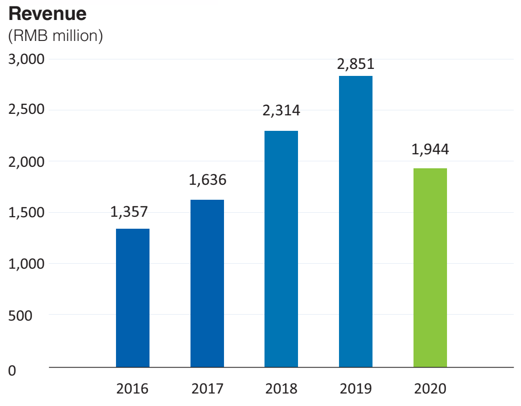
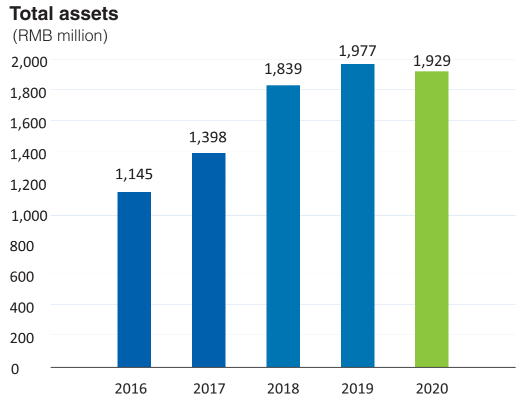
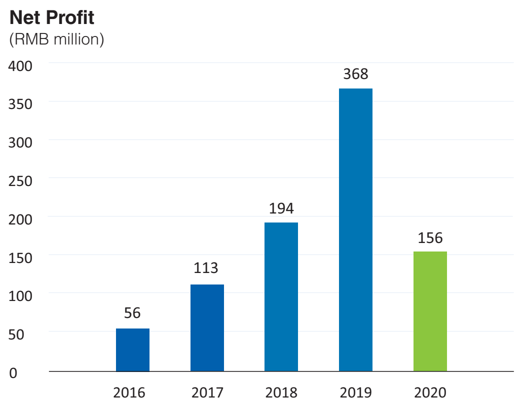
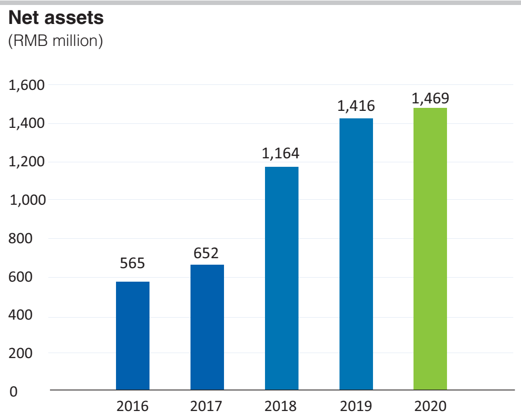
RESULTS HIGHLIGHTS









CORPORATE INFORMATION

Executive Directors
Dr. Tang Donglei *(Chief Executive Officer)*
Dr. Li Zequn

Non-executive Directors
Mr. Takao Nishijima *(Chairman)*
Ms. Mami Matsushita
Mr. Seiji Tsuishu
(appointed on 29 June 2020)

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

Audit Committee
Mr. Tam Kin Bor *(Chairman)*
Mr. Seiji Tsuishu
(appointed on 29 June 2020)
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

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Auditor
Ernst & Young
Certified Public Accountants

Legal Advisers as to Hong Kong Laws
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Hong Kong Branch Share Registrar
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Compliance Adviser
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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
MUFG Bank (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 financial year ended 31 March 2020 (the "**Fiscal Year of 2020**", the "**Year under Review**" or the "**Year**") to the shareholders of the Company (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 of the world.

In 2019, global economic development faced severe challenges, and trade frictions and geopolitical tensions brought multiple challenges to the world economic development. Besides, the outbreak and global spread of the COVID-19 in the fourth quarter of the Year under Review has also a profound impact on China and the world economy.

The above circumstances inevitably have a material impact on the business of the Group. For the Year under Review, the Group recorded sales revenue of approximately RMB1,943,569,000. The gross profit margin was 20.2%. The net profit amounted to approximately RMB155,823,000.

Basic earnings per share amounted to approximately RMB0.41 for the Year under Review.

The Group will continue to use the profit generated from operation to improve operation quality, strengthen comprehensive competitiveness and maintaining market share and profitability. Despite the changes in the market conditions, the Group still strives to maintain a stable dividend policy. Having considered various factors, including the interests of all Shareholders, the board of directors of the Company (the "**Board**") proposes to pay a final dividend of HK$0.15 per share. The Group still strives to minimise the fluctuations in dividend distribution even if its operating results are not as satisfactory.

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 the mainstream phenomenon across the industry, and the standard required 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.

Due to the negative impacts of Sino-US trade conflicts and the change in macro-economy, the market was weakened in the Year under Review. In particular, the automobile industry was sluggish, which resulted in lower demands in some industries as compared to last period. As the government puts forward more stringent environmental protection requirements and the end-consumers pursue higher performance and quality of products, 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. Besides, it is expected that the high demands for automatic lathes due to 5G infrastructure will be an attraction for investment in the next couple of years. The IT, smart phone and home appliance industries impose increasingly high requirements for the precision of parts, and the Group's main product, precision lathes, provides solutions for such industries. The pneumatic components and other essential components are major components for industrial automation and being increasingly valued. With the same direction of transformation and upgrading as the manufacturing industry, these industries developed rapidly in recent years and therefore 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 its development.

During the Year, the Group launched new models including the more competitive S205A, which is widely acclaimed by its customers in the market of precision lathe which is the Group's main product, to further enhance its competitive edge. The continuous expansion of product lines will remain an important task for a longer period in the future, in order for the Group to expand its customer base in various downstream industries.

In order to maintain the competitiveness, the Group led by its experienced management team and with the active participation of all staff, has made various efforts in reducing the time of delivery and costs, rationalising the inventory level and enhancing the efficiency of its production process, all of which have obtained remarkable results.

During the Year, the Group adjusted its marketing networks in light of decreasing market demands. The Group concentrates on more developed regions such as Eastern and Southern China and on customers with investment intent. Meanwhile, the Group continues to enhance its sales agency teams and the number of sales agency outlets has increased to 282.

CHAIRMAN'S STATEMENT

Despite a cautious view for the coming fiscal year since there is no clear opportunity for the overall economic situation to improve in the near future, the Group is confident about the great potential for future growth in the CNC high precision machine tool industry in China, and 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 in order to reduce cost and improve efficiency. Meanwhile, the new plant in Anhui is under construction as planned and will also enhance the Group's production capacity for future sales expansion.

On behalf of the Board, I would like to express my sincere appreciation to all staff and the management of the Group for their contributions in the Fiscal Year of 2020. At the same time, the Group would like to extend its sincere gratitude to the Shareholders for their attention 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, 29 June 2020

BUSINESS REVIEW

The Sino-US trade frictions have its ups and downs since its outbreak in 2018, but they have escalated over time in general, leading to an increasingly obvious impact on both the Chinese and the global economy. Against this backdrop, there was a relatively significant decrease in the demand from the global manufacturing industry for high-end CNC machine tools as compared to last year. In addition, the outbreak and spread of the COVID-19 since the fourth quarter of the Year under Review has a profound impact on Chinese economic performance; and the subsequent global spread, with a major worldwide implication, was unexpected.

The above circumstances inevitably have a material impact on the business of the Group. For the financial year ended 31 March 2020, the Group recorded sales revenue of approximately RMB1,943,569,000, representing a decrease of approximately 31.8% as compared to last year. The gross profit margin decreased by 4.8 percentage points from approximately 25.0% for last year to approximately 20.2% for the Year under Review. The net profit amounted to approximately RMB155,823,000, representing a decrease of approximately 57.6% as compared to last year.

Basic earnings per share amounted to approximately RMB0.41 for the Year under Review.

During the Year under Review, the Group has experienced changes in market conditions where demand has shrunk and competition is fierce. It put forward tougher issues faced by the Group including how to improve the operation quality, strengthen comprehensive competitiveness and maintaining market share and profitability amid the challenging economic situation. In this regard, the Group is constantly making adjustment to its business strategies to reduce the effect arising from the external negative factors. The Group continues to invest in new technologies and new models, as well as upgrading the existing models, and in particular, takes targeted measures to improve comprehensive competitiveness of key products. In terms of marketing, the Group adjusted its business network, further concentrated its efforts on markets in economically developed regions, explored the potential market demand, and took the lead in competing with competitors in this shrinking market. Meanwhile, in various internal operation areas, the Group also adopts multiple measures including shortening delivery time, improving product quality, reducing cost, improving efficiency and reducing inventories.

FINANCIAL REVIEW

Revenue

For the year ended 31 March 2020, the total revenue decreased by approximately 31.8%, or approximately RMB907,314,000, from approximately RMB2,850,883,000 last year to approximately RMB1,943,569,000 this year. Such decrease was primarily the results of 1) the evident downward trend of the overall economy since the second half of last year; 2) a downturn in the automotive industry as a result of the downturn in the national automotive sales market; and 3) the impact of the Sino-US trade frictions and the COVID-19 outbreak that began during the Chinese Spring Festival. In particular, (i) precision lathes recorded sales of RMB1,677,004,000 during the Year under Review, a year-on-year decrease of approximately 31.3%；(ii) the precision machining centres began to deploy new models in the second half of the previous fiscal year, resulting in sales of approximately RMB107,907,000 in the Year under Review, which is approximately the same as the corresponding period last year; and (iii) other models, such as precision grinding machines and others (primarily including accessory parts and components), experienced considerable sale decreases with sales of approximately RMB82,988,000 and approximately RMB63,844,000 this year, respectively, representing decreases of approximately 45.0% and approximately 52.3% respectively, as compared to last year.

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

	For the year ended 31 March 2020	Proportion (%)	For the year ended 31 March 2019	Proportion (%)	Year-on-year increase (%)
Precision lathes	1,677,004	86.3%	2,441,490	85.6%	(31.3%)
Precision machining centres	107,907	5.5%	108,745	3.8%	(0.8%)
Precision grinding machines	82,988	4.3%	150,887	5.3%	(45.0%)
Precision thread and form rolling machines	11,826	0.6%	15,831	0.6%	(25.3%)
Others	63,844	3.3%	133,930	4.7%	(52.3%)
Total	1,943,569	100%	2,850,883	100%	(31.8%)

Gross Profit and Gross Profit Margin

For the year ended 31 March 2020, gross profit decreased by approximately 45.0% to approximately RMB392,093,000 as compared to last year, mainly due to the combined effect of the overall economic downturn, the Sino-US trade frictions and COVID-19. The Group's overall gross profit margin also decreased from approximately 25.0% for the year ended 31 March 2019 to approximately 20.2% for the year ended 31 March 2020. Such decrease was mainly attributable to the degree of decrease in fixed cost being lesser than the decreases in sales orders and output 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 2020, other income and gains decreased by approximately 6.7% to approximately RMB16,937,000, primarily due to the combined effect from the decrease in net gain on foreign exchange and the increases in the government grants income and bank interest income.

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 decreased by approximately 6.4% as compared to last year to approximately RMB106,443,000 this year, representing approximately 5.5% of the Group's revenue for the Year under Review. Such decrease was mainly attributable to the decreases in selling and distribution expenses along with transportation and insurance costs and warranty expenses as a result of a corresponding decrease 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, customization and development expenses, depreciation expenses relating to property, plant and equipment used for administrative purposes, amortisation expenses for the management information systems, and other taxes and levies expenditure.

During the Year under Review, administrative expenses amounted to approximately RMB77,810,000, representing a decrease of approximately 39.6%, as compared to last year, mainly due to the decreases in development expenses and staff salary and benefits during the Year under Review.

Other Expenses

Other expenses primarily include exchange losses, losses on the disposal of fixed assets, bank handling fees and others. During the Year under Review, other expenses decreased by approximately RMB2,242,000 as compared to last year to approximately RMB1,484,000 this year, mainly due to the combined effect from the decrease in losses on the disposal of fixed assets, bank handling fees and non-administrative penalties and delay charges as well as increase in foreign exchange losses during the Year under Review.

Impairment Losses on Financial Assets

During the Year under Review, the reversal of impairment losses on financial assets amounted to approximately RMB196,000, as compared to provision of impairment losses of RMB1,008,000 last year, mainly due to decrease in ending balance of trade and notes receivables as a result of decrease in sales revenue during the Year under Review.

Finance Costs

During the Year under Review, finance costs were approximately RMB76,000 (for the same period last year: nil), which was due to the interest arising from lease liabilities recognised by the Group resulted from the adoption of IFRS 16 (Leases) commencing from 1 April 2019.

Income Tax Expenses

During the Year under Review, income tax expenses decreased by approximately 41.8% as compared to last year to approximately RMB67,590,000, mainly due to the significant decrease 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 decreased by approximately 57.6% from approximately RMB367,605,000 for the year ended 31 March 2019 to approximately RMB155,823,000 for the year ended 31 March 2020.

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 financing and treasury policies. As at 31 March 2020, the total cash and cash equivalents of the Group amounted to approximately RMB205,010,000 (as at 31 March 2019: approximately RMB400,275,000). Such decrease was mainly due to the decrease in net cash flows from operating activities and increase in capital investment expenditures such as purchase of property, plant and equipment, and increase in short-term structured deposits measured at fair value held by the Company.

As at 31 March 2020, the Group's cash and cash equivalents were mainly held in Renminbi, and part of them were held in Hong Kong dollars and Japanese yen ("**JPY**").

As at 31 March 2020, the Group recorded net current assets of approximately RMB978,551,000 (as at 31 March 2019: approximately RMB1,030,240,000). Capital expenditures for the year ended 31 March 2020 amounted to approximately RMB151,883,000, which was mainly utilised to finance the plant construction, addition of processing equipment, and addition and purchase of design and management software.

As at 31 March 2020, the Group had no outstanding bank loans and other borrowings (31 March 2019: nil) and no discounted bills with recourse (31 March 2019: nil). As at 31 March 2020, the Group's gearing ratio was approximately 0.2%, calculated by dividing the total debt (i.e. bank loans and other borrowing and lease liabilities) by the total equity (31 March 2019: not applicable).

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

	For the year ended 31 March	
	2020	2019
Average inventory turnover days *(Note 1)*	**149**	98
Average turnover days of trade and notes receivables *(Note 2)*	**88**	71
Average turnover days of trade and notes payables *(Note 3)*	**80**	72

	As at 31 March	
	2020	2019
Current ratio *(Note 4)*	**3.2**	2.9

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 2020 were approximately 149 days, representing an increase of 51 days as compared to last year, which was mainly due to the relatively significant decline in orders and sales this year but the adjustment of production and inventory lags behind the changes in orders and the slightly higher average inventory level this year, resulting in an increase in average inventory turnover days.

Average turnover days of trade and notes receivables

The Group's average turnover days of trade and notes receivables for the year ended 31 March 2020 were approximately 88 days, representing an increase of approximately 17 days as compared to last year. The turnover of the Group's trade and notes receivables has been maintained at a reasonable level, the increase in average turnover days over the previous year was mainly due to the decreases in sales and the average balance of the trade and notes receivables for the year ended 31 March 2020, while the proportional decrease in sales was higher than the proportional decrease in trade and notes receivables over the same period, resulting in a slight increase in average turnover days.

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 2020 were approximately 80 days, representing an increase of approximately 8 days as compared to last year, mainly due to the proportional decrease in cost of sales for the year ended 31 March 2020 was higher than the proportional decrease in average balance of trade and notes payables.

Current ratio

As at 31 March 2020, the Group's current ratio was approximately 3.2 times, while it was approximately 2.9 times as at 31 March 2019, and the increase is mainly due to the fact that there was a certain proportion of decrease in current assets and current liabilities of the Group, but the proportion of decrease in trade and other payables and accruals was higher than that in inventories, trade and notes receivables, cash and cash equivalents.

Capital Commitment

The capital commitment of the Group at the end of the reporting period is as follows:

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Contracted but not provided:		
Property, plant and equipment	**49,855**	1,801

Contingent Liabilities

As at 31 March 2020, the Group had no material contingent liabilities (31 March 2019: nil).

Currency Risk and Management

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

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

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

On 18 April 2018, Precision Tsugami (Anhui) Corporation* (安徽津上精密機床有限公司) ("**Anhui PTC**"), a wholly-owned subsidiary of the Company, was established in Bowang District, Ma'anshan, Anhui Province, the PRC, with a registered capital of RMB50,000,000. Through Anhui PTC, the Company is establishing a new factory in Bowang District, Ma'anshan, Anhui Province, the PRC (the "**Anhui Investment**"). The Anhui Investment's total investment amount is estimated to be approximately RMB275,000,000. Anhui PTC entered into the First Phase and Second Phase Construction Agreement with Maonshan Taiping Construction Installation Engineering Limited Liability Company* (馬鞍山市太平建築安裝工程有限公司) (the "**Contractor**") on 5 April 2019 and 1 August 2019, respectively, pursuant to which the Contractor will be responsible for the construction and installation works of certain plants and facilities (including 6 production plants, 1 office building and warehouse, etc.) of the Group's production plants located in Bowang District, Ma'anshan, Anhui Province at a total construction amount of approximately RMB175.5 million. The construction work commenced in April 2019 and is expected to be completed in October 2020 due to the smooth process of the work. By the end of 31 March 2020, the construction amount paid and payable amounted to approximately RMB140 million.

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

Charge on Assets

As at 31 March 2020, apart from the bank deposits of approximately RMB17,088,000 (as at 31 March 2019: approximately RMB14,627,000) pledged by the Group to banks in relation to the issue of notes 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 2020.

Employees and Remuneration Policy

As at 31 March 2020, the Group employed 1,493 employees (31 March 2019: 1,572), of whom 13 (31 March 2019: 21) 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 RMB203,944,000 (31 March 2019: RMB215,381,000) in aggregate, representing approximately 10.5% 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, which have bearing on their promotion prospects and compensation. Remuneration is determined with reference to market norms and individual employee's performance, qualifications and experience.

OUTLOOK

The prolongation of the Sino-US trade frictions and the substantial changes in the Sino-US relationship will become a reality in the foreseeable future.

As a result, the global manufacturing industry as well as the overall economy will inevitably be adversely affected. Due to the challenging future economic situation, a wait-and-see attitude should be adopted, and the number of enterprises that curb investment in equipment will increase, hence it is unlikely that the entire industry will show signs of recovery in the short term. Under such crippling circumstance, the Group is more cautious towards the situation in the next financial year. Meanwhile, the Group believes that there are still opportunities in certain market segments, and that by being well-prepared, we in turn have the chance to achieve better results.

Putting efforts in improving business performance is now a great trial for the operation team of the Group amidst such challenging environment as a whole. The Group will, as always, adopt prudent business strategies and a pragmatic attitude to overcome obstacles in a market environment full of challenges and grasp opportunities of the industry with flexibility. The Group will improve its operations with no effort spared, to further enhance its operational and financial performance. Through continuous investment in new models and the upgrading of existing models, especially strengthening the competitiveness of key products, the Group will further expand the competitive advantages against its major competitors; by adjusting the allocation of marketing resources and enhancing its sales network, the Group is able to tap into the potential needs of markets and at the same time the Group will compete with its competitors for existing markets with superior cost performance and after-sales services. Meanwhile, the Group will improve operation management by several measures such as further reducing the delivery period, improving product quality, cutting costs, enhancing efficiency and compressing stock.

In the long run, the Group remains fully confident in the long-term expanding trend of CNC high precision machine tools market in China. The Group will not be beaten by the short-term economic changes, and will be well prepared to seize investment opportunities in the manufacturing industry at any time.

Executive Directors

Dr. Tang Donglei (唐東雷) ("Dr. Tang"), aged 57, 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 the 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 ("**Shinagawa Precision**"), an indirect wholly-owned subsidiary 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 Anhui PTC. 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 on 20 June 2018 and mainly managed the business arrangement between Tsugami Japan and its subsidiaries (except the Group) and the Group.

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 59, 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 responsible person of management department of the Group as well as a supervisor of Anhui PTC. 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 (カルソニッ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 (カルソニックカンセイ株式會社) and the head of a PRC group company of Calsonic Kansei Corporation (カルソニッ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 (カルソニッ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 72, is the chairman of the Company and the nomination committee. Mr. Nishijima joined the Group since September 2003 and was appointed as a Director on 2 July 2013 and was redesignated as a 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 of Tsugami Japan.

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 56, was appointed as our non-executive Director and a member of audit committee on 13 May 2015 and 4 September 2017, respectively and ceased to be a member of audit committee from 17 June 2019. 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 and a director of Anhui PTC. 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 (TYO: 7729).

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. Seiji Tsuishu (堆朱誠治) ("Mr. Tsuishu"), aged 59, was appointed as a non-executive Director and a member of the audit committee of the Company on 29 June 2020. He joined Tsugami Japan (a company listed on the Tokyo Stock Exchange (TYO: 6101)) in April 2020, and served as the head of the full-time consultant management department of Tsugami Japan from April 2020 to May 2020. He served as the head of the management department of Tsugami Japan since May 2020 and as the representative director and the person in charge of the management department of Tsugami Japan since June 2020. Prior to joining Tsugami Japan, Mr. Tsuishu 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 1985. Mr. Tsuishu consecutively served as the director and the executive officer of Mitsubishi UFJ NICOS.

Mr. Tsuishu graduated from the Faculty of Commerce and Management of Hitotsubashi University (一橋大學商學部) in Japan in 1985, majoring in Commerce.

Independent Non-executive Directors

Dr. Eiichi Koda (甲田英一) ("Dr. Koda"), aged 72, was appointed as an 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 57, 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 (ユニデン株式會社, 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 which 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 51, 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 57, joined the Group since March 2006 and is the vice president of the Group and a director of PTC. 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 50, joined the Group since January 2009 and is the vice president of the Group and a director of PTC, Shinagawa Precision and Anhui PTC. 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 46, joined the Group since November 2012 and is the assistant to president and financial manager of the Group. He is primarily responsible for financial administration of the 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 (横濱國立大學) in Japan in September 2006.

Company Secretary

Ms. Wong Wai Yee Ella (黃慧兒) ("Ms. Wong"), aged 44, was appointed as the company secretary of the Company in June 2015. Ms. Wong is a 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 services 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 of Hong Kong Limited (the "**Stock Exchange**").

Ms. Wong is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). 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 2020 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

Non-executive Directors:

Mr. Takao Nishijima *(Chairman)*
Ms. Mami Matsushita
Mr. Seiji Tsuishu *(appointed from 29 June 2020)*
Mr. Manabu Tanaka *(appointed from 17 June 2019 and resigned from 29 June 2020)*
Mr. Nobuaki Takahashi *(resigned from 17 June 2019)*

Independent Non-executive Directors:

Dr. Eiichi Koda
Dr. Huang Ping
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 of the Company 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, regulations and rules 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 2020.

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 for decision 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 CG Code 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 2020 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. Seiji Tsuishu *(Appointed as a member of the Audit Committee from 29 June 2020)*
Mr. Manabu Tanaka *(Appointed as a member of the Audit Committee from 17 June 2019 and ceased to be a member of the Audit Committee from 29 June 2020)*
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 2020, the Audit Committee held three meetings to resolve to pass the replacement of members of the Audit Committee, and to review, assess and comment on the audited consolidated financial statements for the year ended 31 March 2019 and unaudited consolidated financial statements for the six months ended 30 September 2019 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 2020 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 CG Code 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 2020 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 members 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 members of the Group.

During the Fiscal Year of 2020, one meeting was held by the Remuneration Committee in relation to:

1) the remuneration determination of one then newly-appointed non-executive Director, being Mr. Manabu Tanaka; 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 CG Code 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 2020 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 diversity policy is effective. It is currently not required to set any measurable objectives for implementing the policy.

During the Fiscal Year of 2020, two meetings were held by the Nomination Committee. Recommendations have been made by the Nomination Committee to the Board for change of members of the Board committee during the Fiscal year of 2020, namely the appointment of Mr. Manabu Tanaka as then non-executive Director and the re-election of all retiring Directors who were retired during the annual general meeting of the Company for the year ended 31 March 2019. 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.

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 the 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 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 2020 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

Major responsibilities of Competition Executive Committee are to monitor the business of the Company's 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 2020 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 2020 are as follows:

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

Notes:

1 Ms. Mami Matsushita ceased to be a member of the Audit Committee from 17 June 2019.

2 Mr. Manabu Tanaka has been appointed as a member of the Board and the Audit Committee since 17 June 2019 and ceased to be a member of the Board and the Audit Committee from 29 June 2020.

3 Mr. Nobuaki Takahashi resigned as a member of the Board 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 2020, 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 2020	870
Non-audit services – interim review fees for the six months ended 30 September 2019	500
Non-audit services – others *(Note)*	158
Total	1,528

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 2020, the Directors have selected appropriate accounting policies and applied them consistently, made judgements and estimations 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 prolongation of the Sino-US trade frictions and the substantial changes in the Sino-US relationship and the outbreak of COVID-19, 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", and note 36 to the audited consolidated financial statements for the year ended 31 March 2020 (the "**Consolidated Financial Statements**"). 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 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 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 issuance 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 and 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 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 to oversee 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

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 and strives for greater sustainability and transparency, as well as delivers services that foster a sustainable environment for future generations.

This report summarizes several topics of the Group's business practices for the Environmental, Social Governance (referred to as "**ESG**") 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 2019 to 31 March 2020 (referred to as the "**Reporting Period**").

1.1. 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.

1.2. Reporting Scope

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

1.3. Comments and Feedback

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

2. APPROACH TO SUSTAINABILITY

As a responsible company, the Group continues to focus on 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.

2.1. Materiality Assessment

Sustainable development covers a holistic spectrum of environmental and social aspects. In order to mitigate the related risks and harness different opportunities, it is crucial for the Group to determine the most material aspects. The Group adopts the three-step process of identification, prioritization and validation to ensure sustainability topics are being managed and reported in accordance with their materiality.

2.1.1. Identification

In accordance with the ESG Reporting Guide, all fundamental sustainability topics were identified. In the context of the latest sustainability landscape, the Group has determined the following 21 topics that are deemed to have impacts on the environment and society through its operations.

ESG Aspects		**Material ESG issues for the Group**
A. Environmental	*A1 Emissions*	1. Air emissions
		2. Greenhouse gas emissions
		3. Hazardous waste management
		4. Non-hazardous waste management
	A2 Use of Resources	5. Energy consumption
		6. Water consumption
		7. Paper consumption
		8. Packaging material consumption
	A3 Environment and Natural Resources	9. Environmental risk management
B. Social	*B1 Employment*	10. Human Resources Practices
		11. Employment and remuneration policies
		12. Equal opportunity and diversity
	B2 Health and Safety	13. Occupational health and safety
	B3 Development and Training	14. Employee development
	B4 Labour Standards	15. Anti-child and forced labour
	B5 Supply Chain Management	16. Supply chain management
	B6 Service Responsibility	17. Goods/services' quality
		18. Customer satisfaction
		19. Protection of customers privacy
	B7 Anti-corruption	20. Anti-corruption and anti-money laundering
	B8 Community Investment	21. Community investment and support

2.1.2. Prioritization

To determine the materiality of the selected ESG topics, the views of senior management of respective operational regions were sought. The priorities are set based on the management's view as well as stakeholders' feedback.

Highly material topics (by ranking)

Ranking	No.	Topics
Highest	9	Environmental risk management
	13	Occupational health and safety
	14	Employee development
	16	Supply chain management
	17	Goods/services' quality
	18	Customer satisfaction
	19	Protection of customers privacy
	20	Anti-corruption and anti-money laundering
Lowest		

2.1.3. Validation

The board has reviewed and validated the materiality process, and hence the ESG Report discloses the Group's performance on all high and low materiality topics. To address matters most material to the Group's stakeholders, topics of high materiality are discussed more indepthly throughout the ESG Report.

2.2. Stakeholder Engagement

The Group believes that identifying and addressing stakeholder views lay a solid foundation to the long-term growth and success of the Group. The Group engages with a wide network of stakeholders, including employees, customers, suppliers, business partners, shareholders, government and regulatory authorities and the community.

The Group develops multiple channels for the stakeholders as 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 maintain continuous 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 the ESG Report.

Stakeholders	Engagement channels	Topics of interest/concern
Shareholders	• General meetings • Regular corporate publications including financial reports and ESG Report • Circulars and announcements • Corporate website • Due diligence by investors • Direct communication	• Business strategies and sustainability • Financial performance • Corporate governance • Development of customers • Orders of the company • Products planning
Customers	• Business meetings • Complaint and feedback channels • E-mail • Corporate website	• Service quality and reliability • Client data security • Business ethics • Introduction of new products
Employees	• Performance appraisals • Training sessions • Social media • Interviews • Internal memorandum • Direct communication	• Training and development • Employee remuneration and welfare • Working hours • Occupational health and safety • Equal opportunities

Stakeholders	Engagement channels	Topics of interest/concern
Suppliers and business partners	• Business meetings • Supplier assessment • Continuous direct communication	• Fair competition • Business ethics • Fulfillment of promises • Payment schedule
Government and regulatory authorities	• Statutory filings and notification • Regulatory or voluntary disclosures	• Compliance with law and regulations • Business strategies and sustainability • Environmental protection • Fulfilment of tax obligations
Community	• Community activities • Corporate donations • Charitable activity	• Fair employment opportunities • Environmental protection • Business ethics

The Group's mission is to facilitate and encourage human creativity, innovation and inspiration through provision of CNC high precision 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 pursues excellence in its performance, not only financially, but also in non-financial aspects.

Integrity and Honesty in All Areas of the Group's 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 shareholders, employees, customers, business 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 the Group's Service and Product Quality

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

3. 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 its clients in a manner that minimizes its potential adverse impact on the environment and to 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 material impacts of its 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 whether resources consumption meet with the relevant requirement standards;
- Formulate environmental plans and estimate amount and percentage of target goal; and
- Summarize the environmental impacts, implement and improve measures to control total emission.

Aspect A1: Emissions and waste generated

During the Reporting Period, the Group has conducted assessment on whether air monitoring results meet the requirement of the “Ambient Air Quality Standards” in the PRC. Both the machineries in the production plants, which are powered by electricity, and the heating system that are operated during the winter, have no material impact on the environment.

Air emissions

During the Reporting Period, the Group’s main source of air emission comes from the use of vehicles, the level of which has been in compliance with the relevant air quality laws and regulations in the PRC.

The Group’s air emissions are mainly generated by the use of vehicles. The Group strives to improve the air quality at the roadside and traffic flow problem. It is the Group’s policy to encourages its employees to take public transportation for commuting and to replace highly polluting vehicles with more environmentally-friendly vehicles. The Group has also established policy to limit the emission during production and transportation activities to restrict operators and drivers to switch off the machinery and vehicles when they are in standby mode.

During the Reporting Period under review, the Group’s key exhausted gases generated from the combustion process are Nitrogen Oxides (NO_x), Sulphur Oxides (SO_x) and Particulate Matter (PM). As illustrated from the table below, the Group produced 95,461.89g, 950.30g and 7,941.23g of NO_x, SO_x and PM respectively in the Reporting Period.

Air emissions	Unit	FY2020	FY2019	YOY change
Nitrogen oxides (NO_x)	G	**95,461.89**	127,682.56	-25.2%
Sulphur oxides (SO_x)	G	**950.30**	1,133.78	-16.2%
Particulate matter (PM)	G	**7,941.23**	11,491.55	-30.9%

Greenhouse gas emissions and climate change mitigation

The carbon footprint arising from the Group's day-to-day operations is primarily from vehicles, the use of electricity, such as production, 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.

Emission Sources	CO_2e Emission FY2020 (in tons)	CO_2e Emission FY2019 (in tons)
Scope 1 Direct Emission		
Company Vehicles	**169.84**	182.67
Refrigerant	**23.80**	39.10
Tree Planting	**(1.15)**	(11.50)
Sub-total	**192.49**	210.27
Scope 2 Indirect Emission		
Purchased Electricity	**6,590.92**	9,044.77
Sub-total	**6,590.92**	9,044.77
Scope 3 Other Indirect Emission		
Production Material	**–**	–
Emission from Paper Waste	**41.36**	56.45
Emission from Other Waste	**258.06**	413.05
Business Travel	**111.30**	104.82
Emission from Fresh Water Processing	**14.43**	18.80
Emission from Sewage Processing	**6.82**	8.89
Sub-total	**431.97**	602.01
Total	**7,215.38**	9,857.05

To implement an effective approach to climate change mitigation, it is important to have a comprehensive understanding of the carbon emission sources of the Group. The Group's carbon footprint, presented in the chart and table, is primarily due to electricity consumption. During the Reporting Period, the Group generated a total of 7,215.38 tonnes of carbon dioxide equivalent (tCO_2e) of greenhouse gases, which was 26.8% lower than FY2019 and the total carbon intensity was 1.13 ton per production volume, which was 4.27% higher than FY2019.

The Group is committed to reducing the emission. The Group has established policies regarding the management of emissions to the atmosphere. The Group has taken the following measures to reduce 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

During the Reporting Period, the Group has established clear and concrete guidelines on waste management. Wastes are categorized 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. During the Reporting Period, the amount of waste recycled by the Group was 14.68 tons.

Hazardous waste management

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

During the Reporting Period, 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.

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 staffs may not enter the storage area without permission.

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

iii. Hazardous waste management staffs 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 into the warehouse.

Hazardous Waste	Unit	FY2020	FY2019	YOY change
Total hazardous waste generated	ton	**11.87**	16.91	-29.8%

During the Reporting Period, the Group generated a total of 11.87 tons of hazardous waste, resulting in a hazardous waste intensity of 0.0018 ton/production volume.

Non-hazardous waste management

Non-hazardous waste produced from operation mainly comprises waste from production plants and office activities, such as paper, plastic, glass and food waste, which have been handled over to the centralized management by service providers recognized by the government.

During the Reporting Period, the Group has employed the following measures and initiatives to reduce the generation of non-hazardous waste:

- Organize and maintain waste separation systems and recycling bins for collecting materials such as waste paper, metal and food waste;
- Place posters on walls and labeling the type of waste or recyclable on the bin;
- Sort recycled waste into appropriate receptacles;
- Educate employees on waste sorting methods; and
- Assign an administrative staff to manage and transport the wastes and recyclables for both garbage and recycled waste pick-ups.

Furthermore, the Group has advised the employees on how to reduce waste both at work and at the cafeteria to raise awareness on the waste issues. 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 a verbal warning on the first offence, and will be disciplined on the second offence.

During the Reporting Period, the Group generated a total of 170.4 tons non-hazardous waste, resulting in a non-hazardous waste intensity of 0.03 ton/production volume.

Non-hazardous Waste	Unit	FY2020	FY2019	YOY change
Total non-hazardous waste generated	ton	**170.4**	284.76	-40.16%

Aspect A2: 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 profile consists of the use of electricity, diesel oil and petrol for facility operations. The following table illustrates the energy consumption by types and volumes during the Reporting Period:

Energy consumption	Unit	FY2020	FY2019	YOY change
Direct				
Diesel	L	**10,769.17**	16,955.11	-36.48%
Petrol	L	**34,337.10**	34,728.02	-1.13%
Indirect				
Electricity purchased	KWH	**9,415,600**	12,921,100	-27.1%

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

- Deploy natural light as much as possible;
- Install energy saving light bulbs and LED lights across all offices;
- Turn off the machineries, light and air conditioner before leaving the site;

- All factory machines and computers are set to power saving mode; if the machines are not in use and the computers do not detect any movement for 20 minutes, all machines and monitors would be shut down to save energy;
- Set the temperature of the air-conditioner to the energy-efficient level, i.e. 24-26℃;
- Continue to upgrade its factory machineries and computer equipment, servers, and monitors to more energy efficient models;
- Maintain vehicles and equipment regularly to avoid low-efficiency petrol consumption; and
- Purchase standard petrol for vehicles, and check vehicles on a regular basis to ensure relevant emissions standards are fulfilled.

Water resources

The Group's main source of water consumption comes from the production process, toilet flushing, washing and canteen. The Group recycles the industrial wastewater and reuses it after treatment, all sewage produced is collected and processed by qualified sewage treatment companies. For domestic wastewater, the Group examines the water quality before drainage to ensure compliance with the national and local environmental requirements.

During the Reporting Period, the Group has adopted of the following measures to save water:

- Always turn taps off tightly to avoid dripping;
- Make use of dual-flush toilets to save water;
- Adopt effective water-saving production methods and instruments;
- Use a number of digital printing machines which may help eliminating the chemically tainted wastewater produced during the offset printing process;
- Check the hoses and pipes for leaks, cracks, and other damages regularly and repair them in a timely manner; and
- Give preference to effective water-saving products when making purchase decisions.

During the Reporting Period, the Group consumed a total of 35,888 kilolitres of water, resulting in a water intensity of 5.59 kl/production volume.

Water consumption	Unit	FY2020	FY2019	YOY change
Total water consumption	kl	**35,888**	66,806	-46.28%
Water consumption intensity	kl/production volume	**5.59**	7.31	-23.53%

Packaging material

The Group regularly communicates with the customers to minimize the consumption of packaging material as the Group aims to protect the environment. Due to the nature of the Group's business segment, the packaging materials used are mainly plastic, paper and metal.

Packaging material consumption	Unit	FY2020	FY2019	YOY change
Total packaging consumption	ton	**38.4**	72.3	-46.89%
Packaging consumption intensity	ton/production volume	**0.006**	0.008	-25%

During the Reporting Period, a total of 38.4 tons of packaging material was consumed for finished products, resulting in an intensity of 0.006 ton/production volume.

Aspect A3: The environment and natural resources

The Group is committed to providing a complete picture of its environmental impacts. The Group has deemed employee engagement and green event management as material environmental issues, and made relevant efforts to manage them.

The Group strives to build an eco-conscious culture that ingrains positive lifestyle and habits among employees. As staff become eco-aware, small contributions are made to saving the environment. The Group constantly seeks to integrate sustainability principles into its businesses.

Energy Efficiency Initiative

The Group has established clear regulations on resources consumption in business operations to ensure effective use of resources. It also adopts various measures to reduce power consumption, including promotion of energy saving methods as well as recycle and reuse of resources in its daily operations 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 negative impact of business operations 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 to maintain convenience for staff and clients, 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 utilized recycled used paper, carton box and envelope for its daily operation, 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 23.3 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 staffs to use electronic communications for directories forms, reports and storage when possible; and
- Recycle all used paper, carton box and envelope that have non-confidential information from the Group.

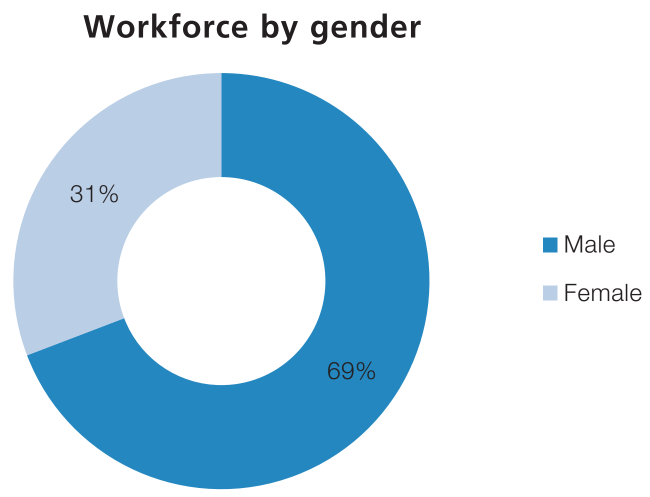
4. SOCIAL RESPONSIBILITY

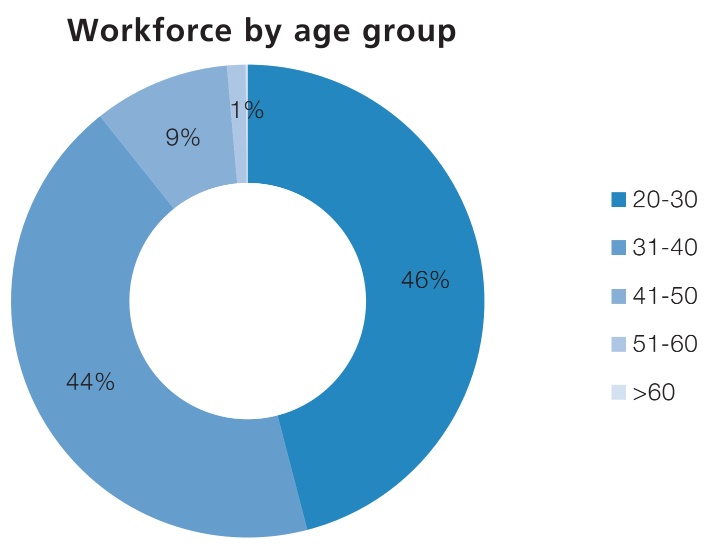
The Group believes building strong and lasting relationship with the employees and suppliers is essential to the on-going commitment as a socially responsible company. Besides, maintaining an honest and authentic dialogue is indispensable as a responsible organization and partner to the stakeholders.

Aspect B1: 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 a harmonious and respectful working environment. With the aim to ensure fair and equal protection for all employees, the Group has a zero tolerance policy on sexual harassment or abuse at the workplace in any form, which is also a violation of the labor laws in countries of its business operation.

As at the end of the Reporting Period, the Group employed 1,493 employees, of which 1,033 and 460 are male and female staff respectively. The Group employed 1,493 full-time staff, with the majority in the age group of 20-40. In terms of the workforce by region, all the Group's employees are located in the PRC.



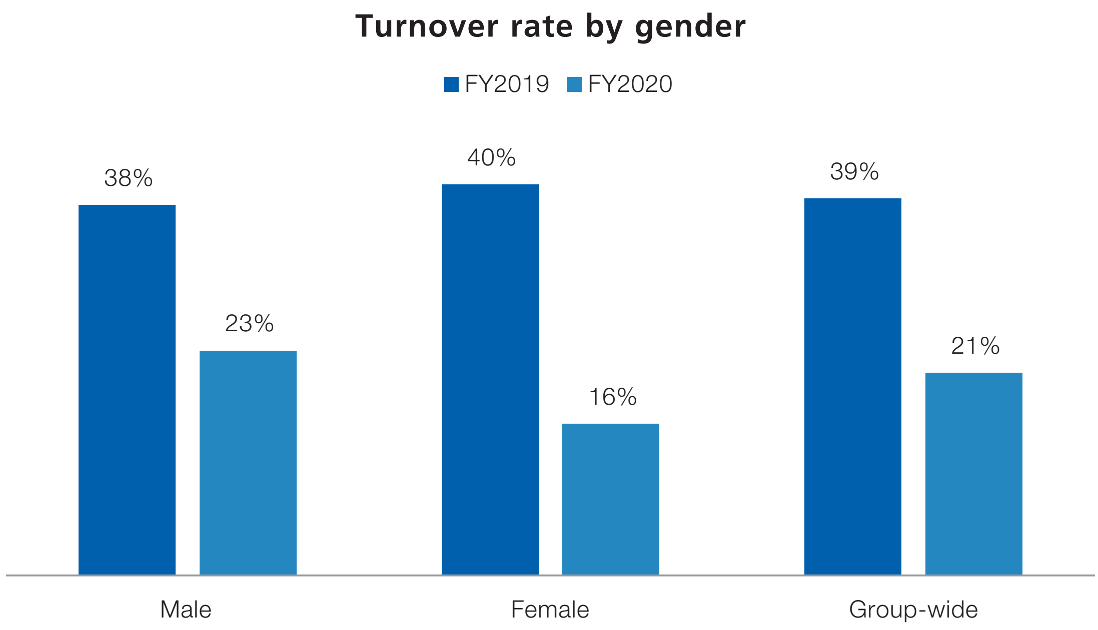


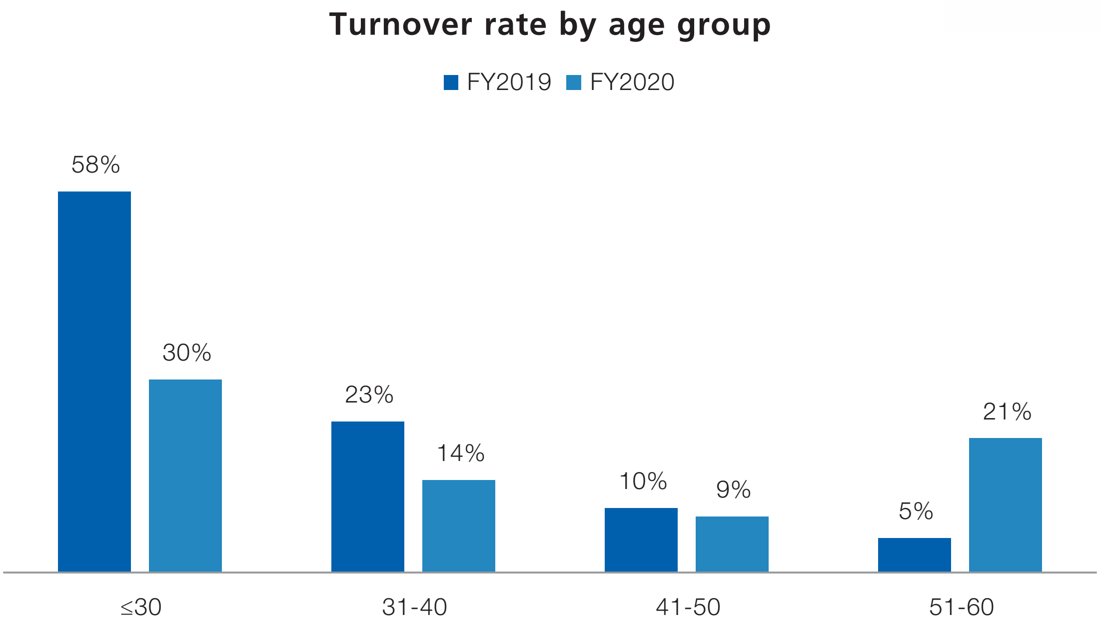
In addition, the Group's human resources department conducts a comprehensive recruitment review to ensure that the data provided by the candidates are accurate. The Group's recruitment and promotion process is carried out in a fair and open manner for all employees; employees are recognized and rewarded 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 or other factors.

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 regular review. Employees are entitled to transportation allowance, long service payment, transportation and accommodation allowance in addition to annual leave and sick leave. Details are set out in the 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 contracts 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.

During the Reporting Period, the Group-wide employee turnover rate was 20.8%. The charts below present the turnover rate by gender, age and geographical region.





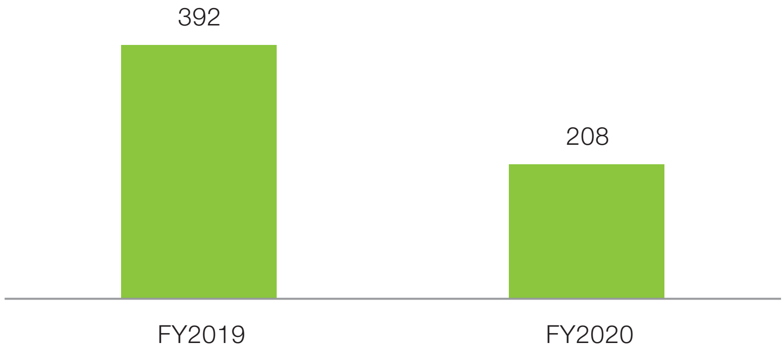
Aspect B2: Workplace health and safety

The Group complies with all applicable rules and regulations regarding 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 exceeds the 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.

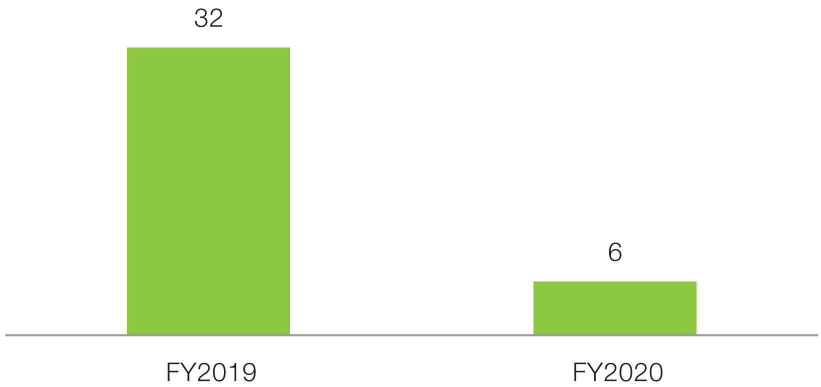
During the Reporting Period, the Group has received a Work Safety Standardization Certification by the Work Safety Administration of Zhejiang Province. The Group did not find any case of violations of laws and regulations in relation to the health and safety of the workplace, and no work-related fatalities was noted.

The Group's operations recorded a decrease in the lost days due to work injury from 392 in FY2019 to 208 in FY2020 while the work-related injuries also decreased from 32 in FY2019 to 6 in FY2020.

Lost days due to work injury



Work-related injuries



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.

During the Reporting Period, a total number of 1,493 employees have attended trainings, of which 1,033 and 460 were male and female respectively. In terms of employee category, 5, 31 and 1,457 of employees trained were of director, manager and general staff respectively.

During the Reporting Period, the Group has provided a total of 31,661 training hours for staff, which averages to 19.7 and 24.7 hours per male and female staff. In terms of employee category, an average of 0.8, 17.48 and 20.50 training hours per staff were received by director, manager and general staff respectively.

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

The directors of the Company will be briefed regularly on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and 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 Law of the People's Republic of China 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.

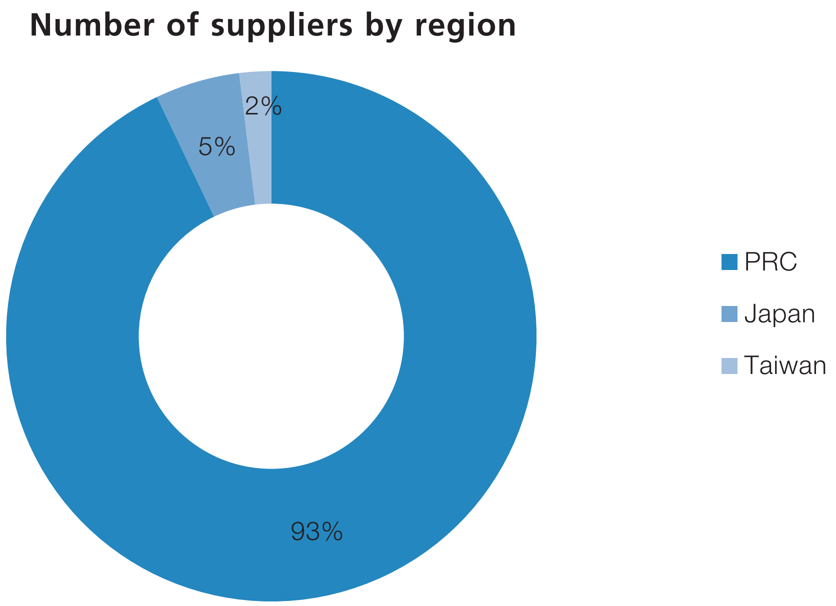
The prohibition of child labor and forced labor practices are also set in accordance with all relevant laws and regulations that applied to the Group. Before hiring any job applicant, the Human Resources Department will verify their age by checking their documents that prove the age of applicant and 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.

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 the 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 ensured 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 maintaining a global supply chains. During the Reporting Period, the Group has 310 suppliers all over the world, which mainly consists of 288, 16 and 6 suppliers from the PRC, 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 provide 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 based 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 or complaints in relation to product and service quality.

➢ During the Reporting Period, no products sold or shipped were subject to recalls for safety and health reasons.

Ethical operating practices

The Group places great value in conducting all aspects of its businesses with integrity and honest values. From protection of data privacy and intellectual property to ethical marketing communication, the Group's robust management approaches ensure that even the most trivial aspect is not overlooked. During the Reporting Period, the Group has encountered no incidents of non-compliance with all applicable laws and regulations related to data privacy, advertising, labelling matters.

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 are provided 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 act with integrity, impartiality and honesty. It is every employee's responsibility and in the 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 actions 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 out 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 People's Republic of China 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 community events to improve 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 made a charitable donations amounted to RMB35,000 and has held a number of activities and events for the employees and the local community.

Donation Day in Nursing Home

The Group has organized charitable activities at nursing home for donation of necessities; during the activities, the Group's 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 at Yuxin primary school, the Group's employees have donated, sorted and distributed stationery to primary school students.

5. 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. Enthusiastic team members of the Group will continue to deliver safe and quality services, without endangering the environment. The Group will also continue to provide hearty service to the customers and contribute back to the community

6. 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 potential areas of improvement in corporate practices, the relevant operating practices will be reviewed.

The Board would like to present the annual report and the Consolidated Financial Statements for the year ended 31 March 2020.

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 14 and "Directors' Report – Events After the End of the Year Under Review" on page 62.

Description of the Group's principal risk and uncertainties is set out in the paragraphs headed "Directors' Responsibilities for Financial Statements" on page 31 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 36 to 60 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 80 to 85 of this annual report.

The Board recommended the payment of a final dividend of HK$0.15 per share, amounting to approximately HK$57,149,100 in total for the year ended 31 March 2020 to the Shareholders whose names appear on the register of members of the Company as at Wednesday, 26 August 2020.

The payment of the proposed final dividend is subject to approval by Shareholders at the annual general meeting for the Fiscal Year of 2020 (the "**AGM**"). The final dividend is expected to be paid to the Shareholders on Friday, 4 September 2020.

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 2020, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB387,390,000 (31 March 2019: approximately RMB361,360,000), 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 26 to the Consolidated Financial Statements.

DIRECTORS AND SERVICE AGREEMENTS

Executive Directors

Dr. Tang Donglei *(Chief Executive Officer)*
Dr. Li Zequn

Non-executive Directors

Mr. Takao Nishijima *(Chairman)*
Ms. Mami Matsushita
Mr. Seiji Tsuishu *(appointed on 29 June 2020)*

Independent Non-executive Directors

Dr. Eiichi Koda
Dr. Huang Ping
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. Seiji Tsuishu is three years from 29 June 2020. 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. Manabu Tanaka's desire to devote more time to his other business commitments, Mr. Manabu Tanaka has resigned from his position as a non-executive Director with effect from 29 June 2020. Mr. Manabu Tanaka has confirmed that he has no disagreement with the Board and there is no other matter that needs to be brought to the attention of the Shareholders or the Stock Exchange in relation to his resignation. Mr. Seiji Tsuishu has been appointed as a non-executive Director with effect from 29 June 2020.

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. Seiji Tsuishu 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 (including those appointed for a specific term) shall be subject to retirement by rotation at an annual general meeting at least once every three years. Mr. Takao Nishijima, Dr. Eiichi Koda and Mr. Tam Kin Bor 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 2020, 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 2020, 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 2020, 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 2020, 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

During the period from 1 April 2019 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 32 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 70.87% of the issued shares in the capital of the Company as of the date of this report. Therefore, as at the date of this report, 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 2020, 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. The Company and Tsugami Japan have agreed to renew the Technology Licence Agreement for a further period of three years after the initial term of the Technology Licence Agreement expires on 31 March 2020, i.e. up to (and including) 31 March 2023. There were no changes to the terms of the Technology Licence Agreement with effect from 4 September 2017. Details of the renewal of the Technology License Agreement and the annual caps set for each of the three financial years ending 31 March 2023 were set out in the announcement of the Company dated 19 February 2020.

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 Company and Tsugami Japan have agreed to renew the Master Sales Agreement for a further period of three years after the initial term of the Master Sales Agreement expires on 31 March 2020, i.e. up to (and including) 31 March 2023. There were no changes to the terms of the Master Sales Agreement with effect from 4 September 2017. Details of the renewal of the Master Sales Agreement and the annual caps set for each of the three financial years ending 31 March 2023 were set out in the announcement of the Company dated 19 February 2020.

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 Company and Tsugami Japan have agreed to renew the Master Purchase Agreement for a further period of three years after the initial term of the Master Purchase Agreement expires on 31 March 2020, i.e. up to (and including) 31 March 2023. There were no changes to the terms of the Master Purchase Agreement with effect from 4 September 2017. Details of the renewal of the Master Purchase Agreement and the annual caps set for each of the three financial years ending 31 March 2023 were set out in the announcement of the Company dated 19 February 2020.

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	212,000	90,371
2	Master Sales Agreement	1,153,000	490,059
3	Master Purchase Agreement	664,000	170,046

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 Group; (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 2020 are set out in note 32 to the Consolidated Financial Statements.

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

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

During the Year, the Company has complied with the relevant 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 ended 31 March 2020, the Company repurchased a total of 144,000 shares on the Stock Exchange (the "**Share Repurchase**"). Subsequently, the Company continued to repurchase 232,000 shares on the Stock Exchange from April to May 2020. A total of 376,000 shares repurchased were cancelled by the Company on 2 June 2020.

Details of the Share Repurchase during the year ended 31 March 2020 are as follows:

Month of Repurchase	Number of shares repurchased	Price per Share		Aggregate price (excluding commission fee, etc.)
		Highest HK$	Lowest HK$	HK$
March	144,000	6.05	5.50	816,339.3

The Board believes that the Share Repurchase may, depending on market conditions and funding arrangements at that time, lead to an enhancement of its earning per share, and will benefit the Company and Shareholders.

Save as disclosed above, there was no purchase, sale and redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 March 2020.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2020, 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 40.45% of the total revenue of the Group (2019: 44.05%), while the revenue from the largest customer during the Year accounted for approximately 25.21% of the total revenue of the Group (2019: 28.86%).

During the Year, the purchases from the top five suppliers of the Group accounted for approximately 45.18% of the total purchases of the Group (2019: 42.11%), while the purchases from the largest supplier during the Year accounted for approximately 17.87% of the total purchases of the Group (2019: 15.80%).

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

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 1,493 employees (2019: 1,572) as at 31 March 2020. The following table shows the breakdown of the Group's employees by responsibilities:

	As at 31 March 2020
Management	53
Finance	14
Procurement	13
Technology	175
Customer service	183
Quality verification	13
Operation	112
Manufacture	807
Administration	51
Shinagawa Precision	72
Total	1,493

Total staff costs for the Year amounted to approximately RMB203,944,000 (2019: RMB215,381,000) 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 for employees who are employed by the Group 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 or cases of fatality due to workplace accidents are found during the Year.

The Group values the cooperation 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 issuance of this annual report, the Company has always maintained the prescribed public float under the Listing Rules of not less than 25% during the Year under Review.

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 2020. 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, 17 August 2020. Notice of the AGM will be published and despatched to the Shareholders 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, 12 August 2020 to Monday, 17 August 2020, 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 branch 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, 11 August 2020. In addition, the register of members of the Company will be closed from Monday, 24 August 2020 to Wednesday, 26 August 2020, 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 branch 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, 21 August 2020.

CHARITABLE DONATIONS

Charitable donations made by the Group during the Year amounted to RMB35,000 (2019: RMB200,000).

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 164 of this annual report.

BANK LOANS

As at 31 March 2020, the Group has no outstanding bank loans (31 March 2019: nil).

RESERVES

The changes in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity of 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, 29 June 2020

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Independent auditor's report
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 80 to 163, which comprise the consolidated statement of financial position as at 31 March 2020, 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 2020, 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 impairment of inventories	
The gross balance of inventories as at 31 March 2020 was RMB631,399,000, against which provision for inventories amounting to RMB12,550,000 was made. Inventory balance comprises raw materials, work in progress and finished goods. At the end of the year, inventories were measured at the lower of cost and net realisable value. The Group's management reviews the inventory ageing list to identify slow-moving and obsolete inventories and then estimates the amount of provision for slowing-moving and obsolete inventories. 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. The Group's management also assesses the net realisable value of inventories based on the latest invoice prices, estimated cost to completion, the estimated selling expense and taxes. 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 impairment of inventories. We examined management's assessment by observing the inventory count and the physical condition of the inventories; performing confirmation procedures to verify the inventories held by others at the end of the reporting period; checking the accuracy of the inventory ageing list, the basis of planned consumption by comparing to the historical and subsequent consumption, and the subsequent sales transactions of inventories after the year end, on a sample basis; and comparing the net realisable value of the selling price after deducting the estimated cost to complete, the estimated selling expense and taxes, with the carrying amount. We also assessed the adequacy of the Group's disclosures of the provision for 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.

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

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.

- 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.

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

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

29 June 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2020

	Notes	Year ended 31 March 2020 RMB'000	2019 RMB'000
REVENUE	*5*	**1,943,569**	2,850,883
Cost of sales		**(1,551,476)**	(2,138,067)
GROSS PROFIT		**392,093**	712,816
Other income and gains	*5*	**16,937**	18,157
Selling and distribution expenses		**(106,443)**	(113,670)
Administrative expenses		**(77,810)**	(128,872)
Impairment losses on financial assets		**196**	(1,008)
Other expenses		**(1,484)**	(3,726)
Finance costs	*7*	**(76)**	–
PROFIT BEFORE TAX	*6*	**223,413**	483,697
Income tax expense	*10*	**(67,590)**	(116,092)
PROFIT FOR THE YEAR		**155,823**	367,605
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**155,823**	367,605
ATTRIBUTABLE TO:			
Owners of the parent		**155,823**	367,605

	Notes	Year ended 31 March 2020 RMB	2019 RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	*12*	**0.41**	0.96
Diluted			
– For profit for the year	*12*	**0.41**	0.96

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2020

	Notes	As at 31 March 2020 RMB'000	 2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**452,116**	346,093
Right-of-use assets	*14(b)*	**45,590**	–
Prepaid land lease payments	*14(a)*	**–**	42,235
Intangible assets	*15*	**3,592**	3,936
Deferred tax assets	*24*	**10,416**	8,664
Total non-current assets		**511,714**	400,928
CURRENT ASSETS			
Inventories	*16*	**618,849**	647,303
Trade and notes receivables	*17*	**437,789**	499,345
Prepayments, other receivables and other assets	*18*	**18,987**	14,362
Financial assets at fair value through profit or loss	*19*	**120,000**	–
Pledged deposits	*20*	**17,088**	14,627
Cash and cash equivalents	*20*	**205,010**	400,275
Total current assets		**1,417,723**	1,575,912
CURRENT LIABILITIES			
Trade and notes payables	*21*	**297,185**	384,866
Other payables and accruals	*22*	**122,053**	133,076
Lease liabilities	*14(c)*	**1,560**	–
Tax payable		**12,030**	14,939
Provision	*23*	**6,344**	12,791
Total current liabilities		**439,172**	545,672
NET CURRENT ASSETS		**978,551**	1,030,240
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,490,265**	1,431,168

continued/...

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

31 March 2020

	Notes	As at 31 March 2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	*14(c)*	**1,427**	–
Deferred tax liabilities	*24*	**2,075**	2,126
Deferred income	*25*	**13,000**	13,000
Other liabilities		**4,900**	–
Total non-current liabilities		**21,402**	15,126
NET ASSETS		**1,468,863**	1,416,042
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*26*	**320,312**	320,312
Treasury shares	*27*	**(747)**	–
Reserves	*28*	**1,149,298**	1,095,730
Total equity		**1,468,863**	1,416,042

Tang Donglei	**Li Zequn**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2020

	Attributable to owners of the parent					
	Issued capital RMB'000	Merger reserve* RMB'000	Share premium 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

	Attributable to owners of the parent						
	Issued capital RMB'000	**Treasury shares RMB'000**	**Merger reserve* RMB'000**	**Share premium reserve* RMB'000**	**Statutory reserve fund* RMB'000**	**Retained profits* RMB'000**	**Total RMB'000**
At 1 April 2019	**320,312**	**–**	**(39,964)**	**354,688**	**118,704**	**662,302**	**1,416,042**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**155,823**	**155,823**
Shares repurchased	**–**	**(747)**	**–**	**–**	**–**	**–**	**(747)**
Dividend distribution	**–**	**–**	**–**	**(24,618)**	**–**	**(77,637)**	**(102,255)**
Transfer from retained profits	**–**	**–**	**–**	**–**	**22,400**	**(22,400)**	**–**
At 31 March 2020	**320,312**	**(747)**	**(39,964)**	**330,070**	**141,104**	**718,088**	**1,468,863**

* These reserve accounts comprise the consolidated reserves of RMB1,149,298,000 (2019: RMB1,095,730,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2020

		Year ended 31 March	
		2020	2019
	Notes	**RMB'000**	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**223,413**	483,697
Adjustments for:			
Finance costs	*7*	**76**	–
Bank interest income	*6*	**(4,808)**	(3,096)
Net (gain)/loss on disposal of items of property, plant and equipment	*6*	**(277)**	2,301
Depreciation of property, plant and equipment	*6*	**44,881**	41,957
Depreciation of right-of-use assets/2019: recognition of prepaid land lease payments	*6*	**2,719**	1,073
Amortisation of intangible assets	*6*	**945**	944
Impairment (reversal)/loss of trade and notes receivables	*6*	**(172)**	981
Provision/(reversal) for impairment of inventories	*6*	**5,231**	(1,310)
Impairment (reversal)/loss of financial assets included in prepayments, other receivables and other assets	*6*	**(24)**	27
		271,984	526,574
Increase in pledged deposits		**(2,461)**	(1,869)
Decrease/(increase) in inventories		**23,223**	(142,451)
Decrease in trade and notes receivables		**61,728**	114,117
(Increase)/decrease in prepayments, other receivables and other assets		**(5,968)**	3,101
Decrease in trade and notes payables		**(87,681)**	(71,550)
Increase/(decrease) in other payables and accruals		**4,446**	(5,769)
Increase in other liabilities		**4,900**	–
Decrease in contract liabilities		**(15,469)**	(33,167)
(Decrease)/increase in provision		**(6,447)**	1,659
Increase in deferred income		**–**	13,000
Cash generated from operations		**248,255**	403,645
Income taxes paid		**(72,302)**	(130,673)
Net cash flows from operating activities		**175,953**	272,972

continued/...

		Year ended 31 March	
		2020	2019
	Notes	**RMB'000**	RMB'000
CASH FLOWS USED IN INVESTING ACTIVITIES			
Interest received		**4,808**	3,096
Purchases of items of property, plant and equipment		**(151,282)**	(66,948)
Proceeds from disposal of items of property, plant and equipment		**655**	1,338
Purchase of financial assets at fair value through profit or loss		**(120,000)**	–
Purchase of items of intangible assets		**(601)**	(1,236)
Increase of prepaid land lease payments		**–**	(10,613)
Net cash flows used in investing activities		**(266,420)**	(74,363)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repurchase of shares		**(747)**	–
Principal portion of lease payments		**(1,720)**	–
Dividends paid		**(102,255)**	(120,094)
Interest paid		**(76)**	–
Net cash flows used in financing activities		**(104,798)**	(120,094)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(195,265)**	78,515
Cash and cash equivalents at beginning of year		**400,275**	321,760
CASH AND CASH EQUIVALENTS AT END OF YEAR		**205,010**	400,275
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	*20*	**205,010**	400,275

1. CORPORATE AND GROUP 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 manufacture and sale of computer numerical control ("**CNC**") high precision machine tools and the provision of related 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 of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
			%	%	
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
安徽津上精密機床有限公司 *(note(b))* 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 AND GROUP INFORMATION (Continued)

Information about subsidiaries (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 China Consultants Co., Limited was liquidated during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for wealth management products which have been measured at fair value. 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 2020. 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.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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.

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 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015 – 2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Except for the amendments to IFRS 9, IAS 19 and IAS 28, and *Annual Improvements to IFRSs 2015 – 2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 Leases, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases – Incentives and SIC-Int 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 April 2019, and the comparative information for the year ended 31 March 2019 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for land and property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 April 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019. The right-of-use assets were 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 1 April 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 April 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/ terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

Financial impact at 1 April 2019

The impact arising from the adoption of IFRS 16 as at 1 April 2019 are as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	47,176
Decrease in prepayments, other receivables and other assets	(259)
Decrease in prepaid land lease payments	(43,343)
Increase in total assets	3,574
Liabilities	
Increase in lease liabilities	3,574
Increase in total liabilities	3,574
Decrease in retained profits	–

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 are as follows:

	RMB'000
Operating lease commitments as at 31 March 2019	**4,798**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 March 2020	(1,164)
	3,634
Weighted average incremental borrowing rate as at 1 April 2019	4.61%
Discounted operating lease commitments as at 1 April 2019	3,574
Lease liabilities as at 1 April 2019	3,574

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) IFRIC-Int 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

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*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IFRS 3	*Reference to the Conceptual Framework*[6]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[3]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[3]
Annual Improvements to IFRSs 2018 – 2020	*Minor amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41*[3]
Amendments to IFRS 16	*Covid-19-Related Rent Concessions*[5]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 No mandatory effective date yet determined but available for adoption
5 Annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not authorised for issue at 4 June 2020
6 Business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2022

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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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 IFRS 3 *Reference to the Conceptual Framework*, amendments to IAS 16 *Property, Plant and Equipment: Proceeds before Intended Use*, amendments to IAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*, annual Improvements to IFRSs 2018-2020 *Minor amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS16 and IAS 41*, and amendments to IFRS16 *Covid-19-Related Rent Concessions* are 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.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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.

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 inventories, deferred tax assets, financial assets and non-current assets/a disposal group classified as held for sale), 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Golf membership

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

Software

A purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 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 (applicable from 1 April 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 April 2019) (Continued)

Group as a lessee (Continued)

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payment	40 to 50 years
Buildings	1 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group elected to present the lease liabilities separately in the statement of financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 April 2019) (Continued)

Group as a lessee (Continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment which are the leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 April 2019)

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.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

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" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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:

Financial assets at amortised cost (debt instruments)

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.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of 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.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**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 (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.

Debt investments at fair value through other comprehensive income and 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 except for trade receivables and contract assets which apply the simplified approach 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)

Impairment of financial assets (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.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, financial liabilities included in other payables and accruals and lease liabilities.

Subsequent measurement

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

Financial liabilities at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision

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

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

The Group provides for warranties in relation to the sale of certain products and the provision of services for general repairs of defects occurring during the warranty period. Provision for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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 in which the costs, for 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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.

When the contract contains a financing component which provides the customer with 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 with 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.

Some contracts for the sale of industrial products provide customers with rights of return. The rights of return give rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(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.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

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:

(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 recognition of revenue to which the asset relate. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects that it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

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 19.0% to 43.2% 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.

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.

Judgements

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:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Withholding tax arising from the distribution of dividends

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of 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 the 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 product) 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 a 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An 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.

(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. Further details are contained in note 13 to the financial statements.

(iv) Impairment of inventories

Net realisable value of an inventory item 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. Further details are contained in note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

(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. Further details are contained in note 24 to the financial statements.

(vi) Variable consideration for returns

The Group estimates variable consideration to be included in the transaction price for the sale of products with rights of return.

The Group developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to the historical return pattern will impact the expected return percentages estimated by the Group.

The Group updates its assessment of expected returns quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns are sensitive to changes in circumstances and the Group's past experience regarding returns may not be representative of customers' actual returns in the future. As at 31 March 2020, the amount recognised as refund liabilities was RMB2,574,000 for the expected returns.

(vii) Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

(viii) Impact of COVID-19

The coronavirus broke out in early 2020. On 11 March 2020, the World Health Organisation announced that the coronavirus outbreak can be characterised as a pandemic. COVID-19 has significantly impacted the world economy. In China, under the prevention and control measures of COVID-19, the Spring Festival has been extended and large-scale businesses were interrupted. Despite the short business disruption in February, the Group' operation has resumed since early March. In preparation for the consolidated financial statements for the year ended 31 March 2020, the Group took into account the impact of COVID-19 when making key accounting estimates, including the going concern basis, provision for expected credit losses on trade receivables, impairment of non-financial assets, provision for impairment of inventories, deferred tax recognition and variable consideration for returns.

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 and the provision of related commercial consultation services. 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	
	2020	2019
	RMB'000	RMB'000
Mainland China	**1,440,186**	1,973,516
Overseas	**503,383**	877,367
	1,943,569	2,850,883

4. OPERATING SEGMENT INFORMATION (Continued)

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	
	2020	2019
	RMB'000	RMB'000
Customer A *(note 32(b))*	**425,597**	793,863

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 March	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of goods	**1,940,494**	2,847,441
Rendering of services	**3,075**	3,442
	1,943,569	2,850,883

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(i) Disaggregated revenue information

For the year ended 31 March 2020 and 2019

	Year ended 31 March	
	2020	2019
	RMB'000	RMB'000
Type of goods or services		
Sale of goods	**1,940,494**	2,847,441
Precision lathes	**1,677,004**	2,441,490
Precision machining centres	**107,907**	108,745
Precision grinding machines	**82,988**	150,887
Other components	**60,769**	130,488
Precision thread and form rolling machines	**11,826**	15,831
Rendering of services	**3,075**	3,442
Total revenue from contracts with customers	**1,943,569**	2,850,883
Geographical markets		
Mainland China	**1,440,186**	1,973,516
Overseas	**503,383**	877,367
Total revenue from contracts with customers	**1,943,569**	2,850,883
Timing of revenue recognition		
Goods transferred at a point in time	**1,940,494**	2,847,441
Services rendered at a point in time	**3,075**	3,442
Total revenue from contracts with customers	**1,943,569**	2,850,883

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 March 2020 and 2019 (Continued)

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

	Year ended 31 March	
	2020	2019
	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**62,872**	96,039

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

(ii) Performance obligations

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

Sale of 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. Some contracts provide customers with a right of return which give rise to variable consideration subject to constraint.

Rendering of services

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

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(ii) Performance obligations (Continued)

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

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**47,403**	62,872

An analysis of other income and gains is as follows:

	Year ended 31 March	
	2020	2019
	RMB'000	RMB'000
Other income and gains		
Bank interest income	**4,808**	3,096
Gain on disposal of items of property, plant and equipment	**277**	–
Government grants *(note (a))*	**9,741**	3,943
Compensation income	**371**	188
Gain on foreign exchange	**–**	10,462
Others	**1,740**	468
	16,937	18,157

Note a: The amount represents grants received from local PRC government authorities by the Group's subsidiaries in connection with social security subsidies and other financial subsidies to support local businesses. There are no unfulfilled conditions or contingencies relating to these grants. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position.

6. PROFIT BEFORE TAX

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

		Year ended 31 March	
		2020	2019
	Notes	**RMB'000**	RMB'000
Cost of inventories sold		**1,551,476**	2,138,067
Depreciation of property, plant and equipment	*13*	**44,881**	41,957
Depreciation of right-of-use assets (2019: recognition of prepaid land lease payments)	*14*	**2,719**	1,073
Amortisation of intangible assets*	*15*	**945**	944
Research and development costs		**28,323**	74,459
Minimum lease payments under operating leases		**–**	5,487
Lease payments not included in the measurement of lease liabilities	*14(d)*	**2,580**	–
Auditor's remuneration			
– Annual audit		**1,370**	1,370
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**169,792**	178,683
Pension scheme contributions		**10,856**	13,052
Social security contributions and accommodation benefits		**23,296**	23,646
Foreign exchange loss/(gain), net		**1,064**	(10,462)
Impairment of financial assets, net:			
Impairment (reversal)/loss of trade and notes receivables	*17*	**(172)**	981
Impairment (reversal)/loss of financial assets included in prepayments, other receivables and other assets	*18*	**(24)**	27
Warranty provision:			
Additional provision	*23*	**325**	8,316
Write-down/(reversal) of inventories to net realisable value		**5,231**	(1,310)
Bank interest income	*5*	**(4,808)**	(3,096)
(Gain)/loss on disposal of items of property, plant and equipment		**(277)**	2,301

* 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	
	2020	2019
	RMB'000	RMB'000
Finance costs		
Interest on lease liabilities	**76**	–

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	
	2020	2019
	RMB'000	RMB'000
Fees	**1,719**	2,248
Other emoluments:		
Salaries, allowances and benefits in kind	**3,208**	3,465
	4,927	5,713

No contribution was made to the pension scheme as set out under Note 2.4 for the directors or past directors of the Company for the year ended 31 March 2020 (2019: Nil).

(a) Independent non-executive directors

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

	Year ended 31 March	
	2020	2019
	RMB'000	RMB'000
Dr. Huang Ping	**493**	412
Dr. Eiichi Koda	**493**	412
Mr. Tam Kin Bor	**493**	412
	1,479	1,236

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

8. DIRECTORS' REMUNERATION (Continued)

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

	Fees	Salaries, allowances and benefits in kind	Total
	RMB'000	RMB'000	RMB'000
Year ended 31 March 2020			
Executive directors:			
– Dr. Li Zequn	–	1,166	1,166
Non-executive directors:			
– Mr. Takao Nishijima	–	–	–
– Ms. Mami Matsushita	240	–	240
– Mr. Nobuaki Takahashi[3]	–	–	–
– Mr. Manabu Tanaka[4]	–	–	–
Chief executive:			
– Dr. Tang Donglei	–	2,042	2,042
	240	3,208	3,448
Year ended 31 March 2019			
Executive director:			
– Dr. Li Zequn	–	1,183	1,183
– Mr. Yoshimasa Hashimoto[1]	–	239	239
Non-executive directors:			
– Mr. Takao Nishijima	–	–	–
– Ms. Mami Matsushita	240	–	240
– Mr. Nobuaki Takahashi[3]	–	–	–
– Mr. Tatsushi Hidano[2]	–	–	–
– Dr. Ng Lai Man Carmen[2]	772	–	772
Chief executive:			
– Dr. Tang Donglei	–	2,043	2,043
	1,012	3,465	4,477

1 Mr. Yoshimasa Hashimoto retired as an executive director of the Company on 20 August 2018.
2 Mr. Tatsushi Hidano and Dr. Ng Lai Man Carmen retired as non-executive directors of the Company on 20 August 2018.
3 Mr. Nobuaki Takahashi resigned as a non-executive director of the Company on 17 June 2019.
4 Mr. Manabu Tanaka was appointed as non-executive director of the Company on 17 June 2019.

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 (2019: one), details of whose remuneration are set out in note 8 above. Details of the remuneration during the year of the remaining four (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 March	
	2020	2019
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**4,664**	4,732

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

	Year ended 31 March	
	2020	2019
HK$1,000,001 to HK$1,500,000	**4**	4

During the year, no directors or highest individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the 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% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong.

The provision for Mainland China current income tax is based on the statutory rate of 25% (2019: 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"), except for a certain high and new technology enterprise of the Group in Mainland China, which is taxed at a preferential rate of 15%.

10. INCOME TAX EXPENSE (Continued)

The major components of income tax expense are as follows:

	Year ended 31 March	
	2020	2019
	RMB'000	RMB'000
Current tax	**69,393**	119,127
Deferred tax *(note 24)*	**(1,803)**	(3,035)
Total tax charge for the year	**67,590**	116,092

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	
	2020	2019
	RMB'000	RMB'000
Profit before tax	**223,413**	483,697
Tax at the statutory tax rate	**56,717**	119,354
Lower tax rate(s) for specific provinces or enacted by local authority	**(88)**	–
Adjustments in respect of current tax of previous periods	**(1,344)**	(3,881)
Expenses not deductible for tax	**345**	377
Tax losses not recognised	**155**	25
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**15,449**	10,001
Research and development super deduction	**(3,644)**	(9,784)
Total tax charge at the Group's effective rate	**67,590**	116,092

11. DIVIDENDS

	Year ended 31 March	
	2020	2019
	RMB'000	RMB'000
Final dividends paid for the year ended 31 March 2019		
– HK$0.15 per ordinary share		
(2019: HK$0.16 per ordinary share for the year ended 31 March 2018)	**51,113**	53,024
Interim dividends paid for the six months ended 30 September 2019		
– HK$0.15 per ordinary share		
(2019: HK$0.20 per ordinary share for the six months ended 30 September 2018)	**51,142**	67,070
	102,255	120,094

On 29 June 2020, the Board of the directors declared the payment of a final dividend of HK$0.15 per share, amounting to HK$57,149,100 for the year ended 31 March 2020. The source of the proposed dividend payment is scheduled to be the retained profits. The proposed final dividend is subject to the approval by shareholders of the Company at the forthcoming annual general meeting.

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 381,368,929 (2019: 381,370,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The Company purchased 144,000 of its shares on the Hong Kong Stock Exchange for a total consideration of RMB747,000. As at 31 March 2020, the 144,000 shares purchased have not been cancelled and were included in treasury shares. Details are set out in note 27.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2020 and 2019.

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

	Year ended 31 March	
	2020	2019
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**155,823**	367,605

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings and diluted earnings per share calculation	**381,368,929**	381,370,000

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 2019 and 1 April 2019	275,760	314,500	15,424	6,156	7,203	319	619,362
Additions	4,345	8,868	1,144	1,352	330	135,243	151,282
Disposals	(5,422)	(63)	(28)	(465)	(476)	–	(6,454)
At 31 March 2020	274,683	323,305	16,540	7,043	7,057	135,562	764,190
Accumulated depreciation:							
At 31 March 2019 and 1 April 2019	78,815	174,652	10,954	4,778	4,070	–	273,269
Charge for the year	14,952	27,059	1,278	745	847	–	44,881
Disposals	(5,161)	(56)	(14)	(416)	(429)	–	(6,076)
At 31 March 2020	88,606	201,655	12,218	5,107	4,488	–	312,074
Net carrying amount:							
At 31 March 2019	196,945	139,848	4,470	1,378	3,133	319	346,093
At 31 March 2020	186,077	121,650	4,322	1,936	2,569	135,562	452,116

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 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

As at 31 March 2020, no property, plant and equipment of the Group were pledged (31 March 2019: Nil).

14. LEASES

The Group as a lessee

The Group has lease contracts for buildings and leasehold land. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 1 to 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 April 2019)

	RMB'000
Carrying amount at 1 April 2018	33,803
Additions during the year	10,613
Recognised in profit or loss during the year	(1,073)
Carrying amount at 31 March 2019	43,343
Analysed into:	
Current portion, included in prepayments, other receivables and other assets	1,108
Non-current portion	42,235

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payment RMB'000	**Buildings** RMB'000	**Total** RMB'000
As at 1 April 2019	43,343	3,833	47,176
Additions	–	1,133	1,133
Depreciation charge	(1,090)	(1,629)	(2,719)
As at 31 March 2020	**42,253**	**3,337**	**45,590**

14. LEASES (Continued)

The Group as a lessee (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	Lease liabilities
	RMB'000
Carrying amount at 1 April 2019	3,574
New leases	1,133
Accretion of interest recognised during the year	76
Payments	(1,796)
Carrying amount at 31 March 2020	**2,987**
Analysed into:	
Current portion	1,560
Non-current portion	1,427

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	For the year ended 31 March 2020
	RMB'000
Interest on lease liabilities	**76**
Depreciation charge of right-of-use assets	**2,719**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 March 2020 (included in administrative expenses and selling and distribution expenses)	**2,580**
Total amount recognised in profit or loss	**5,375**

(e) The total cash outflow for leases is disclosed in notes 29(c) to the financial statements.

15. INTANGIBLE ASSETS

	Golf membership RMB'000	Software RMB'000	Licence RMB'000	Total RMB'000
Cost:				
At 31 March 2019 and 1 April 2019	1,330	4,259	307	5,896
Additions	–	601	–	601
At 31 March 2020	1,330	4,860	307	6,497
Accumulated amortisation:				
At 31 March 2019 and 1 April 2019	–	1,653	307	1,960
Amortisation	–	945	–	945
At 31 March 2020	–	2,598	307	2,905
Net book value:				
At 31 March 2019	1,330	2,606	–	3,936
At 31 March 2020	1,330	2,262	–	3,592

15. INTANGIBLE ASSETS (Continued)

	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

16. INVENTORIES

	As at 31 March	
	2020 **RMB'000**	2019 RMB'000
Raw materials	**183,146**	213,786
Work in progress	**168,234**	207,944
Finished goods	**280,019**	232,892
	631,399	654,622
Provision against inventories	**(12,550)**	(7,319)
	618,849	647,303

17. TRADE AND NOTES RECEIVABLES

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Trade receivables*	**131,017**	165,152
Notes receivable	**307,581**	335,174
Impairment	**(809)**	(981)
	437,789	499,345

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

Customers are usually required to make payment in advance before the Group delivers goods to them. However, the Group's trading terms with certain major customers with good repayment history and high reputations are on credit. The credit period is generally one to six months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are unsecured and non-interest-bearing.

The Group endorsed certain notes receivable (the "Endorsement") of RMB60,350,000 accepted by banks in the PRC (the "Derecognised Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers at 31 March 2020 (2019: RMB91,596,000). The Derecognised Notes had maturities ranging from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Notes. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Notes and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase the Derecognised Notes was equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

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

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	
	2020	2019
	RMB'000	RMB'000
Within 3 months	**105,570**	144,776
3 months to 6 months	**25,447**	20,376
	131,017	165,152

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

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	**981**	–
Impairment losses *(note 6)*	**(172)**	981
At the end of the year	**809**	981

The decrease (2019: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) A decrease in the loss allowance of RMB321,000 (2019: increase of RMB981,000) as a result of a net decrease (2019: decrease) in the gross carrying amount after the settlement of trade receivables and origination of new trade receivables;

(ii) An increase in the loss allowance of RMB149,000 as a result of an increase in trade receivables which were past due for 1 to 3 months (2019: Nil).

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 the 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)

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 2020

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate	**0.545%**	**–**	**1.500%**	**–**	**0.617%**
Gross carrying amount *(RMB'000)*	**121,084**	**–**	**9,933**	**–**	**131,017**
Expected credit losses *(RMB'000)*	**660**	**–**	**149**	**–**	**809**

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

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Prepayments	**6,454**	7,982
Current portion of prepaid land lease payments *(note 14)*	**–**	1,108
Deductible VAT	**9,895**	–
Other receivables and other assets	**2,641**	5,299
	18,990	14,389
Impairment allowance	**(3)**	(27)
	18,987	14,362

Other receivables and other assets mainly represent rental deposits and deposits with suppliers. An impairment analysis is performed at each reporting date, and 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 2020 was 0.1% (2019: 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 and past due amounts. As at 31 March 2020 and 2019, the loss allowance was assessed to be minimal.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Unlisted investments, at fair value	**120,000**	–

The above unlisted investments were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Cash and bank balances	**222,098**	414,902
Less: Pledged deposits for notes payable	**(6,988)**	(14,627)
Pledged deposits for government grants	**(9,100)**	–
Pledged deposits for letter of guarantee	**(1,000)**	–
Cash and cash equivalents	**205,010**	400,275
Denominated in RMB	**196,516**	396,945
Denominated in JPY	**10,290**	8,573
Denominated in HK$	**15,292**	9,384
Cash and cash equivalents and pledged deposits	**222,098**	414,902

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.

21. TRADE AND NOTES PAYABLES

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Trade payables*	**227,307**	254,619
Notes payable	**69,878**	130,247
	297,185	384,866

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

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

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Within 3 months	**226,952**	254,215
Over 3 months	**355**	404
	227,307	254,619

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

22. OTHER PAYABLES AND ACCRUALS

		As at 31 March	
		2020	2019
	Notes	**RMB'000**	RMB'000
Payroll and welfare accruals		**18,494**	19,430
Contract liabilities	*(a)*	**47,403**	62,872
Other payables	*(b)*	**45,174**	38,468
Accruals		**10,982**	12,306
		122,053	133,076

Notes:

(a) Details of contract liabilities are as follows:

	As at	
	31 March 2020	1 April 2019
	RMB'000	RMB'000
Short-term advances received from customers		
Sale of goods	**47,403**	62,872

Contract liabilities include short-term advances received to deliver CNC high precision machine tools. The decrease in contract liabilities as at 31 March 2020 and 2019 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.

23. PROVISION

	Warranties RMB'000
At 1 April 2019	12,791
Additional provision charged to profit or loss during the year	325
Amounts utilised during the year	(6,772)
At 31 March 2020	**6,344**
Analysis of total provision	
Current	6,344
Non-current	–
	6,344

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.

24. 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	**Others** RMB'000	**Total** RMB'000
Deferred tax assets at 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 and 1 April 2019	6,224	1,829	252	359	–	8,664
Deferred tax charged/(credited) to profit or loss during the year	(452)	1,308	(49)	126	819	1,752
Deferred tax assets at 31 March 2020	**5,772**	**3,137**	**203**	**485**	**819**	**10,416**

Deferred tax liabilities	**Withholding tax** RMB'000
Deferred tax liabilities at 1 April 2018	3,925
Deferred tax charged to profit or loss during the year	(1,799)
Deferred tax liabilities at 31 March 2019 and 1 April 2019	2,126
Deferred tax charged to profit or loss during the year	(51)
Deferred tax liabilities at 31 March 2020	**2,075**

24. DEFERRED TAX (Continued)

Deferred tax assets have not been recognised in respect of the following items:

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Tax losses	**938**	151

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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 2020, 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 (2019: RMB639,944,000). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

25. DEFERRED INCOME

Deferred income represents unconditional government grants received in respect of activities related to property, plant and equipment. The balance of deferred income as at 31 March 2020 and 31 March 2019 are as follows:

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Government grants	**13,000**	13,000

26. ISSUED CAPITAL

Shares

	As at 31 March	
	2020	2019
	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	
	2020	2019
	HK$'000	HK$'000
Issued and fully paid:		
381,370,000 (2019: 381,370,000) ordinary shares	**381,370**	381,370
	RMB'000	RMB'000
Equivalent to RMB	**320,312**	320,312

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 2018 and 31 March 2019	381,370,000	381,370
As at 1 April 2019 and 31 March 2020	**381,370,000**	**381,370**

27. TREASURY SHARES

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Treasury shares: 144,000 (2019: Nil) ordinary shares	**747**	–

A summary of movements in the Company's treasury shares is as follows:

	Number of shares repurchased	**Treasury shares**
		RMB'000
As at 1 April 2018, 31 March 2019 and 1 April 2019	–	–
Shares repurchased	144,000	747
At 31 March 2020	**144,000**	**747**

The Company purchased 144,000 of its shares on the Hong Kong Stock Exchange for a total consideration of RMB747,000. As at 31 March 2020, the 144,000 shares purchased have not been cancelled and were included in treasury shares.

28. 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.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,133,000 and RMB1,133,000, respectively, in respect of lease arrangements for buildings (2019: Nil).

(b) Changes in liabilities arising from financing activities

For the year ended 31 March 2020

	Lease liabilities RMB'000
At 31 March 2019	–
Effect of adoption of IFRS 16	3,574
At 1 April 2019 (restated)	3,574
Changes from financing cash flows	(1,796)
New leases	1,133
Interest expense	76
At 31 March 2020	2,987

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB'000
Within operating activities	2,021
Within financing activities	1,796
	3,817

30. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's notes payables, letter of guarantee and government grants are included in note 20 to the financial statements.

31. COMMITMENTS

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

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**49,855**	1,801

(b) **Operating lease commitments as at 31 March 2019**

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were 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 falling due as follows:

	31 March 2019
	RMB'000
Within one year	3,238
In the second to fifth years, inclusive	1,560
	4,798

32. RELATED PARTY TRANSACTIONS

(a) Name and relationship

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

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

	Note	Year ended 31 March 2020 RMB'000	2019 RMB'000
Sales of goods to			
Tsugami Corporation *(note 4)*	*(i)*	**425,597**	793,863
Tsugami Korea Co., Ltd.	*(i)*	**64,462**	28,813
		490,059	822,676
Purchases of materials from			
Tsugami Corporation	*(i)*	**159,969**	229,065
Purchases of property, plant and equipment from			
Tsugami Corporation	*(i)*	**2,480**	–
Licence fee to			
Tsugami Corporation	*(i)*	**89,766**	127,454
Service fee to			
Tsugami Corporation	*(i)*	**8,202**	8,498

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.

32. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with related parties

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Amount due from the Controlling Shareholder		
Tsugami Corporation		
Trade receivables	**55,156**	50,788
Amount due from a company controlled by the Controlling Shareholder		
Tsugami Korea Co., Ltd.		
Trade receivables	**23,209**	11,857
Amounts due to the Controlling Shareholder		
Tsugami Corporation		
Trade payables	**47,393**	35,196
Other payables	**50**	50
	47,443	35,246

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	
	2020	2019
	RMB'000	RMB'000
Other emoluments:		
Salaries, allowances and benefits in kind	**3,828**	3,850

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.

33. 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 2020			
	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and notes receivables	–	307,581	130,208	437,789
Financial assets included in prepayments, other receivables and other assets	–	–	2,638	2,638
Financial assets at fair value through profit or loss	120,000	–	–	120,000
Pledged deposits	–	–	17,088	17,088
Cash and cash equivalents	–	–	205,010	205,010
Total	120,000	307,581	354,944	782,525

Financial liabilities

	As at 31 March 2020
	Financial liabilities at amortised cost RMB'000
Trade and notes payables	297,185
Lease liabilities	2,987
Financial liabilities included in other payables and accruals	45,174
Total	345,346

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

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

34. 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 valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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.

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 March 2020 were assessed to be insignificant.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 March 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivable*	–	307,581	–	307,581
Financial assets at fair value through profit or loss	–	120,000	–	120,000
	–	427,581	–	427,581

* As at 31 March 2019, notes receivable were measured at amortised cost.

The Group did not have any financial liabilities measured at fair value as at 31 March 2020 and 31 March 2019.

35. 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 board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2020 and 2019 to a reasonably possible change in the JPY, USD and HKD exchange rate, with all other variables held constant, of the Group's profit before tax.

	Change in foreign currency rate	Increase/ (decrease) in profit before tax RMB'000
31 March 2020		
If RMB weakens against JPY	**5%**	**1,534**
If RMB strengthens against JPY	**5%**	**(1,534)**
If RMB weakens against US$	**5%**	**(78)**
If RMB strengthens against US$	**5%**	**78**
If RMB weakens against HK$	**5%**	**637**
If RMB strengthens against HK$	**5%**	**(637)**
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)

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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	Beyond 2 years RMB'000	Total RMB'000
31 March 2020					
Trade and notes payables	–	297,185	–	–	297,185
Lease liabilities	–	1,578	1,108	368	3,054
Financial liabilities included in other payables and accruals	45,174	–	–	–	45,174
	45,174	298,763	1,108	368	345,413
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

35. 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.

Maximum exposure and year-end staging

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. The amounts presented are gross carrying amounts for financial assets.

As at 31 March 2020

	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*	–	–	–	131,017	131,017
Financial assets included in prepayments, other receivables and other assets					
– Normal**	176	2,465	–	–	2,641
Pledged deposits					
– Not yet past due	17,088	–	–	–	17,088
Cash and cash equivalents					
– Not yet past due	205,010	–	–	–	205,010
	222,274	2,465	–	131,017	355,756

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 March 2019

	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
Pledged deposits					
– Not yet past due	14,627	–	–	–	14,627
Cash and cash equivalents					
– Not yet past due	400,275	–	–	–	400,275
	419,352	849	–	499,345	919,546

* For trade and notes receivables to which the Group applies the simplified 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".

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

Concentrations of credit risk are managed by customer. At the end of each reporting period, the Group had certain concentrations of credit risk as 56.99% of the Group's trade receivables were due from the Group's Controlling Shareholder and the largest third-party customer as at 31 March 2020 (31 March 2019: 52.72%).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 lease liabilities 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 2020 and 2019 are as follows:

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Group

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
Lease liabilities	**2,987**	–
Less: Cash and cash equivalents	**(205,010)**	(400,275)
Net debt	**N/A**	N/A
Total equity	**1,468,863**	1,416,042
Net debt to equity ratio	**N/A**	N/A

36. EVENTS AFTER THE REPORTING PERIOD

(a) Due to the outbreak of COVID-19 in early 2020 and disruption to business, the Group suffered in the fourth quarter ended 31 March 2020. The Group has been closely monitoring the development and the impact of COVID-19 since then and taking appropriate responses in a timely manner in order to mitigate the impact on the Group's business. Based on the information currently available, management has confirmed that there has been no material adverse change in the financial or trading position of the Group up to the date of this report. However, the actual impacts may differ from these estimates as the situation continues to evolve and further information becomes available.

Considering the continuing expansion of COVID-19 worldwide, the Group will closely monitor the situation and assess its impacts on its financial position and operating results.

(b) On 29 June 2020, the Board of the directors declared a final dividend for the year ended 31 March 2020, details of which are set out in note 11.

(c) The Company has repurchased 232,000 of its shares on the Hong Kong Stock Exchange from April 2020 to May 2020. On 2 June 2020, the total 376,000 of the Company's repurchased shares (including the 144,000 treasury shares as at 31 March 2020) was cancelled.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	As at 31 March	
	2020	2019
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**561,494**	561,494
Debt instrument at amortised cost	**–**	74,800
	561,494	636,294
CURRENT ASSETS		
Prepayments, other receivables and other assets	**58,423**	1,350
Debt instrument at amortised cost	**84,800**	43,000
Cash and cash equivalents	**10,045**	8,177
	153,268	52,527
CURRENT LIABILITIES		
Other payables and accruals	**7,807**	7,149
	7,807	7,149
NET CURRENT ASSETS	**145,461**	45,378
TOTAL ASSETS LESS CURRENT LIABILITIES	**706,955**	681,672
Net assets	**706,955**	681,672
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**320,312**	320,312
Treasury shares	**(747)**	–
Reserves *(note)*	**387,390**	361,360
Total equity	**706,955**	681,672

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

Note:

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

	Issued capital RMB'000	Treasury shares RMB'000	Share premium reserve RMB'000	Retained profits RMB'000	Total RMB'000
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
At 31 March 2019 and 1 April 2019	320,312	–	354,688	6,672	681,672
Total comprehensive income for the year	–	–	–	128,285	128,285
Shares repurchased	–	(747)	–	–	(747)
Dividend distribution	–	–	(24,618)	(77,637)	(102,255)
At 31 March 2020	**320,312**	**(747)**	**330,070**	**57,320**	**706,955**

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 June 2020.

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				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,943,569**	2,850,883	2,314,215	1,636,281	1,357,465
Cost of sales	**(1,551,476)**	(2,138,067)	(1,842,099)	(1,345,080)	(1,140,356)
GROSS PROFIT	**392,093**	712,816	472,116	291,201	217,109
Other income and gains	**16,937**	18,157	8,453	3,957	11,922
Selling and distribution expenses	**(106,443)**	(113,670)	(98,303)	(76,846)	(68,199)
Administrative expenses	**(77,810)**	(128,872)	(71,293)	(41,527)	(47,225)
Impairment losses on financial assets	**196**	(1,008)	–	–	–
Other expenses	**(1,484)**	(3,726)	(29,794)	(3,795)	(17,078)
Finance costs	**(76)**	–	(10,466)	(13,060)	(18,311)
PROFIT BEFORE TAX	**223,413**	483,697	270,713	159,930	78,218
Income tax expense	**(67,590)**	(116,092)	(76,623)	(47,364)	(22,410)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**155,823**	367,605	194,090	112,566	55,808
ATTRIBUTABLE TO:					
Owners of the parent	**155,823**	367,605	194,090	112,566	55,808

CONSOLIDATED ASSETS AND LIABILITIES

	Year ended 31 March				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,929,437**	1,976,840	1,838,501	1,397,738	1,145,472
TOTAL LIABILITIES	**(460,574)**	(560,798)	(674,706)	(745,841)	(580,019)
TOTAL EQUITY	**1,468,863**	1,416,042	1,163,795	651,897	565,453