

PRECISION TSUGAMI CHINA

PRECISION TSUGAMI (CHINA) CORPORATION LIMITED
津上精密機床(中國)有限公司

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

INTERIM REPORT
2020

The background of the page is a vibrant blue gradient. It features a complex, abstract pattern of glowing light trails and a grid of small, white, rectangular shapes that create a sense of depth and movement, resembling a digital or data-driven environment.

PRECISION TSUGAMI CHINA

Precision Tsugami (China) Corporation Limited is a subsidiary established by Tsugami Corporation 株式会社ツガミ (“**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 the industry report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. in December 2018.

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INTERIM RESULTS REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Precision Tsugami (China) Corporation Limited (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2020 (the “**Period under Review**”) together with the unaudited comparative figures for the corresponding period in 2019. Such results have been reviewed by the external auditor Ernst & Young and the audit committee of the Company.

RESULTS HIGHLIGHTS

| | For the six months ended 30 September | | |
|--|--|--|--|
| | 2020 RMB'000, except for percentages (unaudited) | 2019 RMB'000, except for percentages (unaudited) | Period-on-period increase/ (decrease) % |
| Revenue | 1,378,832 | 1,075,854 | 28.2% |
| Gross profit | 320,620 | 234,775 | 36.6% |
| Gross profit margin | 23.3% | 21.8% | 1.5% |
| Profit before tax | 217,018 | 145,554 | 49.1% |
| Profit attributable to shareholders of the Company | 148,358 | 100,744 | 47.3% |
| Net profit margin | 10.8% | 9.4% | 1.4% |
| Basic earnings per share (RMB) | 0.39 | 0.26 | 50% |

- For the Period under Review, sales amounted to approximately RMB1,378,832,000, representing an increase of approximately 28.2% as compared to the same period last year.
- During the Period under Review, the Group reached a gross profit of approximately RMB320,620,000, representing an increase of approximately 36.6% as compared to the same period last year.
- During the Period under Review, the net profit of the Group amounted to approximately RMB148,358,000, representing an increase of approximately 47.3% as compared to the same period last year.
- Basic earnings per share amounted to approximately RMB0.39, representing an increase of approximately 50% as compared to the same period last year.

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

Registered Office

PO Box 309, Uglan House
Grand Cayman KY1-1104
Cayman Islands

Auditor

Ernst & Young
Certified Public Accountants

Legal Advisers as to Hong Kong Laws

Eversheds Sutherland
37/F, One Taikoo Place,
Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

Principal Place of Business

China Region
No. 2001 Pingcheng Road
Pinghu Economic and Technology
Development District
Zhejiang Province, 314200
People's Republic of China (*the "PRC"*)

Hong Kong Region
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Share Registrar

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

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Compliance Adviser

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

Principal Bankers

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

PRC

Sumitomo Mitsui Banking Corporation (China) Limited
MUFG Bank (China), Ltd.
Mizuho Bank (China), Ltd.
China Construction Bank Corporation

Stock Code

1651

Company Website

www.tsugami.com.cn

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the last financial year, under the influence of the Sino-US trade frictions, the economic situation was challenging and the demand for machine tools from the manufacturing industry was weak. In particular, the outbreak and spread of COVID-19 epidemic in the PRC in February and March this year, as well as the subsequent spread of the pandemic around the world, brought great uncertainties at the beginning of this financial year.

However, during the Period under Review, against many pessimistic forecasts, the manufacturing industry of the PRC flipped and began to recover. Due to the special demand brought by the COVID-19 pandemic in March and April 2020, and benefiting from the 3C (computer, communication and consumer electronic products), automation and construction machinery industries, various downstream sectors of the manufacturing industry have become more active, and the demand for high-end CNC machine tools has been growing. The market downturn from the second half of 2018 to the whole of the previous financial year has gradually subsided, and the machine tool industry is entering into another cycle of prosperity.

For the Period under Review, the Group recorded revenue of approximately RMB1,378,832,000, representing an increase of approximately 28.2% as compared to the same period last year. The gross profit margin increased from approximately 21.8% for the same period last year to approximately 23.3% for the Period under Review. The Group's net profit amounted to approximately RMB148,358,000 for the Period under Review, representing an increase of approximately 47.3% as compared to the same period last year.

Basic earnings per share amounted to approximately RMB0.39 for the Period under Review, representing an increase of approximately 50% as compared to the same period last year.

Given that the processing and manufacturing industry has certain concerns about its prosperity, coupled with the heightening market competition that has continued since the previous financial year, during the Period under Review, the end-customers were not only demanding of the selling price but further required speedy delivery of the machine tools as soon as possible to commence production. Accordingly, the proportion of orders with short to even ultra-short delivery period increased significantly.

The above market features have enabled the Group, which excels in cost reduction and inventory management, to leverage on its own strengths and achieve remarkable results in the domestic market during the Period under Review.

FINANCIAL REVIEW

Revenue

During the Period under Review, the total revenue amounted to approximately RMB1,378,832,000, representing a period-on-period increase of approximately RMB302,978,000 or 28.2%. The increase in the total revenue was primarily due to the significant increase in the volume of orders and delivery of the Group as a result of the rebound in demand in certain industries with the gradual and effective containment of the COVID-19 epidemic in the PRC, as well as the improvement of the overall economic situation after March and April 2020 in the PRC. In particular, (i) the sales of precision lathes, as the main machine of the Company, increased by approximately RMB278,160,000, representing an increase of approximately 30.4%; (ii) precision machining centres and precision grinding machines increased by 15.7% and 16.2% respectively; and (iii) others increased by 12.4%.

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

| | For the six months ended 30 September 2020 | Proportion (%) | For the six months ended 30 September 2019 | Proportion (%) | Period-on- period increase/ (decrease) (%) |
|---|---|---------------------------|--|-------------------|---|
| Precision lathes | 1,191,741 | 86.5% | 913,581 | 84.9% | 30.4% |
| Precision machining centres | 92,519 | 6.7% | 79,963 | 7.4% | 15.7% |
| Precision grinding machines | 47,070 | 3.4% | 40,520 | 3.8% | 16.2% |
| Precision thread and form rolling machines | 5,831 | 0.4% | 4,721 | 0.4% | 23.5% |
| Others | 41,671 | 3.0% | 37,069 | 3.5% | 12.4% |
| Total | 1,378,832 | 100% | 1,075,854 | 100% | 28.2% |

Gross Profit and Gross Profit Margin

During the Period under Review, gross profit increased by approximately 36.6% to approximately RMB320,620,000 as compared to the same period last year. Although the heightening market competition continued since the last financial year, the overall gross profit margin also increased by approximately 1.5 percentage points to approximately 23.3% as compared to approximately 21.8% for the same period last year, mainly due to (i) the increase in the number of units produced by the Group as compared to the same period last year as a result of the increase in the volume of orders due to the improving economy during the Period under Review with the effective containment of the pandemic in the PRC, and the positive impact of mass production on gross profit; and (ii) the increase in gross profit margin as a result of the Company's continuous efforts in cost reduction and efficiency enhancement.

Other Income and Gains

Other income and gains of the Group primarily consist of bank interest income, gain on disposal of items of property, plant and equipment, government grants, compensation income, foreign exchange gains and others. During the Period under Review, other income and gains decreased by approximately RMB2,625,000 as compared to the same period last year to approximately RMB9,421,000, primarily due to (i) the decrease in government grants obtained by the Group during the Period under Review by approximately RMB6,332,000 as compared to the same period last year, and (ii) the increase in interest income during the Period under Review by approximately RMB3,796,000.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of staff salaries and benefits, transportation and insurance costs, warranty expenses, travelling expenses, office utility expenses, marketing and advertisement expenses and depreciation costs. During the Period under Review, selling and distribution expenses of the Group increased by approximately RMB4,436,000, or approximately 8.1%, as compared to the same period last year to approximately RMB59,108,000, representing approximately 4.3% of the Group's revenue for the Period under Review. Such increase was mainly attributable to the corresponding increase in selling and distribution expenses along with the increase in revenue during the Period under Review.

Administrative Expenses

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

During the Period under Review, administrative expenses increased by approximately RMB5,424,000, or approximately 13.1%, as compared to the same period last year to approximately RMB46,877,000, mainly due to the increase in administrative expenses of the Company as a result of the increase in sales and shipment volume and production volume during the Period under Review.

Other Expenses

Other expenses primarily include foreign exchange losses, losses on the disposal of fixed assets, bank handling fees and others. During the Period under Review, other expenses decreased slightly as compared to the same period last year to approximately RMB529,000, mainly due to the decrease in bank handling fees during the Period under Review.

Impairment Losses on Financial Assets

During the Period under Review, impairment losses on financial assets increased to approximately RMB5,553,000 as compared to RMB4,544,000 during the same period last year, mainly due to the increase in endorsement and discounting of bank bills received during the Period under Review and the increase in bills held at the end of September 2020.

Finance Costs

During the Period under Review, finance costs were approximately RMB956,000 (for the same period last year: RMB49,000), which was due to the increase in discount interest paid for the discounting of bank bills of the Group during the Period under Review.

Income Tax Expenses

During the Period under Review, income tax expenses increased by approximately 53.2% as compared to the same period last year to approximately RMB68,660,000, mainly due to the increase in revenue and profit before tax.

Profit for the Period

As a result of the factors described above, the Group's profit for the period increased by approximately 47.3% from approximately RMB100,744,000 for the six months ended 30 September 2019 to approximately RMB148,358,000 for the Period under Review, representing an increase of approximately RMB47,614,000 as compared to the same period last year.

Liquidity, Financial Resources and Debt Structure

During the Period under Review, the Group continued to maintain a healthy and solid liquidity position by adopting a prudent financial management approach on its financing and treasury policies. As at 30 September 2020, the total cash and cash equivalents of the Group amounted to approximately RMB349,998,000 (as at 31 March 2020: approximately RMB205,010,000). Such increase was mainly due to the Group's two structured deposits of approximately RMB120,000,000 classified as financial assets measured at fair value as at 31 March 2020. Excluding such impact, the Group's cash and cash equivalents increased slightly by approximately RMB25,000,000.

As at 30 September 2020, the Group's cash and cash equivalents were mainly held in Renminbi ("**RMB**") and partly held in Hong Kong dollars and Japanese yen ("**JPY**").

As at 30 September 2020, the Group recorded net current assets of approximately RMB1,082,142,000 (as at 31 March 2020: approximately RMB978,551,000) and its current ratio, calculated by dividing total current assets by total current liabilities, was approximately 2.9 times (as at 31 March 2020: approximately 3.2 times). Capital expenditures for the six months ended 30 September 2020 amounted to approximately RMB24,989,000, which was mainly related to the addition of factory buildings and mechanical equipment.

As at 30 September 2020, the Group had no outstanding bank loans and other borrowings (31 March 2020: nil) and no discounted bills with recourse (31 March 2020: nil). As at 30 September 2020, the Group's gearing ratio was approximately 0.15%, calculated by dividing the total debt (i.e. bank loans and other borrowing and lease liabilities) by the total equity (31 March 2020: 0.2%).

Capital Commitments

As at 30 September 2020, the Group had capital commitments contracted but not contributed of approximately RMB76,806,000 (as at 31 March 2020: approximately RMB49,855,000).

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 Ma’anshan 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 November 2020 due to the smooth process of the work. In addition, as part of the production equipment has been included and part of the prepayment has been paid, the installation and testing of the equipment are expected to be completed in March 2021. As of 30 September 2020, the construction amount paid and equipment prepayments amounted to approximately RMB160 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 Period under Review.

Charge on Assets

As at 30 September 2020 apart from the bank deposits of approximately RMB15,712,000 (as at 31 March 2020: approximately RMB17,088,000) pledged by the Group to banks in relation to the issue of bills payable, the Group had no other assets charged to any financial institutions.

Contingent Liabilities

As at 30 September 2020, the Group had no material contingent liabilities.

* For identification purpose only

Currency Risk and Management

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

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

Future Plans for Material Investments or Capital Assets

Save as disclosed in this report, the Group did not have any future plans for material investments or capital assets as at 30 September 2020.

Employees and Remuneration Policy

As at 30 September 2020, the Group employed 1,462 employees (as at 31 March 2020: 1,493), of whom 10 (as at 31 March 2020: 13) were transferred employees from the Controlling Shareholder. The Group's staff costs (including salaries, bonuses, social insurance, commercial insurance and provident funds) amounted to approximately RMB110,991,000 in aggregate (including directors' emoluments) (for the six months ended 30 September 2019: RMB101,657,000), representing approximately 8.05% of the total revenue of the Group during the Period under Review.

The Group offers attractive remuneration packages, including competitive fixed salaries plus performance-based annual bonuses, and continuously provides tailored training to its employees to promote their upward mobility in the organisation and foster employee loyalty. The Group's employees are subject to regular job performance reviews, which have a bearing on their promotion prospects and compensation. Remuneration is determined with reference to market norms and individual employee's performance, qualifications and experience.

OUTLOOK

During the Period under Review, as the demand for high-end CNC machine tools from various downstream industries in China continued to increase, coupled with the anti-pandemic efforts of major industrial countries in the world, it is expected that the demand in the overseas markets will also recover gradually. It is expected that this will consolidate and extend the new cycle of prosperity of the manufacturing industry.

The Group will place more emphasis on the research and development of applications that fit market needs and provide the best solutions according to the market demands. The Group has always attached great importance to the cost control of its products and will endeavour to maintain its advantages amid increasingly intense market competition in the future. As the demand for short delivery period in the domestic machine tool market becomes more normalised, the Group will strive to enhance its ability to cope with short delivery period orders based on its efficient inventory and production management.

Although potential risks such as the escalation of the Sino-US trade friction and the persistent COVID-19 pandemic may still have a significant impact on the direction of the economic situation, the Group will pay close attention to the development and changes of the macroeconomic conditions, assess the situation and seize the opportunities to achieve better results.

EVENTS AFTER THE END OF THE PERIOD UNDER REVIEW

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

INTERIM DIVIDENDS

The Board declared the payment of an interim dividend of HK\$0.15 per share for the Period under Review (2019: HK\$0.15) to the shareholders of the Company whose names appear on the register of members of the Company as at Thursday, 10 December 2020, the payment of which is expected to be made on Monday, 11 January 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the period from Tuesday, 8 December 2020 to Thursday, 10 December 2020 (both days inclusive), during which no transfer of shares will be registered. In order to be eligible for the interim dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 7 December 2020.

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

During the Period under Review, the Company repurchased a total of 422,000 shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Share Repurchase**”), of which 232,000 shares had been cancelled on 2 June 2020. Details of the Share Repurchase during the Period under Review are as follows:

| Month of Repurchase | Number of shares repurchased | Price per share | | Aggregate price |
|---------------------|------------------------------|-----------------|--------|----------------------------------|
| | | Highest | Lowest | (excluding commission fee, etc.) |
| | | HK\$ | HK\$ | HK\$ |
| April | 219,000 | 6.45 | 6.00 | 1,364,570 |
| May | 13,000 | 6.45 | 6.26 | 83,000 |
| August | 171,000 | 6.36 | 5.65 | 1,015,050 |
| September | 19,000 | 6.50 | 6.18 | 119,460 |

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 any listed securities of the Company by the Company or any of its subsidiaries during the Period under Review.

OTHER INFORMATION

PUBLIC FLOAT

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

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

As at 30 September 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 Securities and Futures Ordinance (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 which the Directors and chief executive 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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), 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:

- 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:

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

Except as disclosed above, as at 30 September 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 30 September 2020, so far as any of the Directors or chief executive of the Company is 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 | 70.87% |

Note:

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

Except as disclosed above, as at 30 September 2020, the Directors and chief executive of the Company were not aware of any persons/entities (other than the Directors or chief executive of the Company) who had, or were deemed to have, an interest 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.

SHARE OPTION SCHEME

During the period from 1 April 2020 to the date of this report, the Company did not have any subsisting share option scheme.

CHANGES IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVE

The changes in information of the Directors during the period from 1 April 2020 to the date of this report are set out as follows:

Dr. Eiichi Koda, an independent non-executive Director, ceased to be the director of the Imperial tower clinic.

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

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

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

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed the Group’s unaudited condensed consolidated interim financial results for the six months ended 30 September 2020 including the accounting principles and standards adopted by the Group and discussed with the management in respect of the auditing, risk management, internal control and financial information. At the request of the Board, the Company’s external auditor, Ernst & Young, has carried out a review of the unaudited condensed consolidated interim financial results in accordance with Hong Kong Standard on Review Engagement 2410 issued by the Hong Kong Institute of Certified Public Accountants.

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

INDEPENDENT REVIEW REPORT

To the board of directors of Precision Tsugami (China) Corporation Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 16 to 36, which comprises the condensed consolidated statement of financial position of Precision Tsugami (China) Corporation Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 September 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“**IAS 34**”) issued by the International Accounting Standards Board (the “**IASB**”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
Hong Kong
12 November 2020

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2020

| | Notes | For the six months ended 30 September | |
|---|-------|--|---------------------------------|
| | | 2020 RMB' 000 (Unaudited) | 2019 RMB' 000 (Unaudited) |
| REVENUE | | | |
| Cost of sales | 5 | <u>1,378,832</u> <u>(1,058,212)</u> | 1,075,854 (841,079) |
| GROSS PROFIT | | 320,620 | 234,775 |
| Other income and gains | | 9,421 | 12,046 |
| Selling and distribution expenses | | (59,108) | (54,672) |
| Administrative expenses | | (46,877) | (41,453) |
| Impairment losses on financial assets | | (5,553) | (4,544) |
| Other expenses | | (529) | (549) |
| Finance costs | | <u>(956)</u> | <u>(49)</u> |
| PROFIT BEFORE TAX | 6 | 217,018 | 145,554 |
| Income tax expense | 7 | <u>(68,660)</u> | <u>(44,810)</u> |
| PROFIT FOR THE PERIOD | | 148,358 | 100,744 |
| ATTRIBUTABLE TO: | | | |
| Owners of the parent | | <u>148,358</u> | <u>100,744</u> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted (RMB) | 9 | | |
| – For profit for the period | | <u>0.39</u> | <u>0.26</u> |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2020

| | For the six months ended 30 September | |
|---|--|---------------------------------|
| | 2020 RMB' 000 (Unaudited) | 2019 RMB' 000 (Unaudited) |
| PROFIT FOR THE PERIOD | 148,358 | 100,744 |
| OTHER COMPREHENSIVE INCOME | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods: | | |
| Financial assets at fair value through other comprehensive income: | | |
| Changes in fair value | - | 2,185 |
| Income tax effect | - | (546) |
| | - | 1,639 |
| Net other comprehensive income that may be reclassified to profit or loss in subsequent periods | - | 1,639 |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX | - | 1,639 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 148,358 | 102,383 |
| ATTRIBUTABLE TO: | | |
| Owners of the parent | 148,358 | 102,383 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2020

| | | 30 September 2020 RMB' 000 (Unaudited) | 31 March 2020 RMB' 000 (Audited) |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 455,253 | 452,116 |
| Right-of-use assets | | 44,572 | 45,590 |
| Intangible assets | | 3,165 | 3,592 |
| Deferred tax assets | | 11,823 | 10,416 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 514,813 | 511,714 |
| CURRENT ASSETS | | | |
| Inventories | | 588,075 | 618,849 |
| Trade and notes receivables | 11 | 673,501 | 437,789 |
| Prepayments, other receivables and other assets | | 36,028 | 18,987 |
| Financial assets at fair value through profit or loss | | – | 120,000 |
| Pledged deposits | | 15,712 | 17,088 |
| Cash and cash equivalents | | 349,998 | 205,010 |
| | | <hr/> | <hr/> |
| Total current assets | | 1,663,314 | 1,417,723 |
| CURRENT LIABILITIES | | | |
| Trade and notes payables | 12 | 420,628 | 297,185 |
| Other payables and accruals | | 127,520 | 122,053 |
| Lease liabilities | | 1,445 | 1,560 |
| Tax payable | | 24,929 | 12,030 |
| Provision | | 6,650 | 6,344 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 581,172 | 439,172 |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | 1,082,142 | 978,551 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,596,955 | 1,490,265 |
| | | <hr/> | <hr/> |

Continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

30 September 2020

| | 30 September 2020 RMB' 000 (Unaudited) | 31 March 2020 RMB' 000 (Audited) |
|--|---|---|
| | <i>Notes</i> | |
| NON-CURRENT LIABILITIES | | |
| Lease liabilities | 954 | 1,427 |
| Deferred tax liabilities | 13,355 | 2,075 |
| Other liabilities | 6,100 | 4,900 |
| Deferred income | 13,000 | 13,000 |
| | <hr/> | <hr/> |
| Total non-current liabilities | 33,409 | 21,402 |
| | <hr/> | <hr/> |
| Net assets | 1,563,546 | 1,468,863 |
| | <hr/> | <hr/> |
| EQUITY | | |
| Equity attributable to owners of the parent | | |
| Issued capital | 13 319,996 | 320,312 |
| Treasury shares | (1,014) | (747) |
| Reserves | 1,244,564 | 1,149,298 |
| | <hr/> | <hr/> |
| Total equity | 1,563,546 | 1,468,863 |
| | <hr/> | <hr/> |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2020

| | Attributable to owners of the parent | | | | | | Total RMB' 000 |
|--|--------------------------------------|--------------------------------|--------------------------------|--|---|----------------------------------|-------------------|
| | 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 | |
| At 1 April 2020 (audited) | 320,312 | (747) | (39,964) | 330,070 | 141,104 | 718,088 | 1,468,863 |
| Total comprehensive income for the period | - | - | - | - | - | 148,358 | 148,358 |
| Ordinary shares repurchased | - | (2,532) | - | - | - | - | (2,532) |
| Ordinary shares cancelled | (316) | 2,265 | - | (1,949) | - | - | - |
| Dividend distribution | - | - | - | - | - | (51,143) | (51,143) |
| At 30 September 2020 (unaudited) | <u>319,996</u> | <u>(1,014)</u> | <u>(39,964)</u> | <u>328,121</u> | <u>141,104</u> | <u>815,303</u> | <u>1,563,546</u> |

| | Attributable to owners of the parent | | | | | | |
|---|--------------------------------------|--------------------------------|--|---|---|----------------------------------|-------------------|
| | Issued capital RMB' 000 | Merger reserve* RMB' 000 | Share premium reserve* RMB' 000 | Fair value reserve of financial assets at fair value through other comprehensive income* RMB' 000 | Statutory reserve fund* RMB' 000 | Retained profits* RMB' 000 | Total RMB' 000 |
| At 1 April 2019 (audited) | 320,312 | (39,964) | 354,688 | - | 118,704 | 662,302 | 1,416,042 |
| Profit for the period | - | - | - | - | - | 100,744 | 100,744 |
| Other comprehensive income for the period: | | | | | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income, net of tax | - | - | - | 1,639 | - | - | 1,639 |
| Total comprehensive income for the period | - | - | - | 1,639 | - | 100,744 | 102,383 |
| Dividend distribution | - | - | (24,618) | - | - | (26,671) | (51,289) |
| At 30 September 2019 (unaudited) | <u>320,312</u> | <u>(39,964)</u> | <u>330,070</u> | <u>1,639</u> | <u>118,704</u> | <u>736,375</u> | <u>1,467,136</u> |

* These reserve accounts comprise the consolidated reserves of RMB1,244,564,000 and RMB1,146,824,000 in the condensed consolidated statements of financial position as at 30 September 2020 and 2019, respectively.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 September 2020*

| | For the six months ended 30 September | |
|--|--|-------------|
| | 2020 | 2019 |
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before tax | 217,018 | 145,554 |
| Adjustments for: | | |
| Finance costs | 956 | 49 |
| Interest income | (6,587) | (2,791) |
| Provision/(reversal) for impairment of trade receivables | 351 | (35) |
| Provision for impairment of financial assets at fair value through other comprehensive income | 5,205 | 4,606 |
| Reversal for impairment of prepayments, other receivables and other assets | (3) | (27) |
| Net gain on disposal of items of property, plant and equipment | (5) | (159) |
| Depreciation of property, plant and equipment | 21,680 | 22,632 |
| Depreciation of right-of-use assets | 1,321 | 1,341 |
| Amortisation of intangible assets | 474 | 469 |
| | 240,410 | 171,639 |
| Decrease in pledged deposits for notes payable | 1,376 | 2,504 |
| Decrease in inventories | 30,774 | 37,116 |
| Increase in trade and notes receivables | (241,268) | (1,618) |
| Increase in prepayments, other receivables and other assets | (16,954) | (11,144) |
| Increase/(decrease) in trade and notes payables | 123,443 | (114,775) |
| Decrease in other payables and accruals | (3,611) | (13,751) |
| Increase in other liabilities | 1,200 | - |
| Increase/(decrease) in contract liabilities | 9,078 | (24,800) |
| Increase/(decrease) in provision | 306 | (5,671) |
| Cash generated from operations | 144,754 | 39,500 |
| Income taxes paid | (45,881) | (37,305) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 98,873 | 2,195 |

Continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the six months ended 30 September 2020

| | For the six months ended 30 September | |
|---|--|---------------------------------|
| | 2020 RMB' 000 (Unaudited) | 2019 RMB' 000 (Unaudited) |
| CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | |
| Interest received | 6,587 | 2,791 |
| Purchases of items of property, plant and equipment | (24,989) | (114,092) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 120,000 | – |
| Proceeds from disposal of items of property, plant and equipment | 177 | 518 |
| Purchase of financial assets at fair value through profit or loss | – | (25,000) |
| Purchase of intangible assets | (47) | (601) |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | 101,728 | (136,384) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repurchase of shares | (2,532) | – |
| Dividends paid | (51,143) | (51,289) |
| Interest paid | (956) | (49) |
| Principal portion of lease payments | (982) | (1,042) |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | (55,613) | (52,380) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 144,988 | (186,569) |
| Cash and cash equivalents at beginning of period | 205,010 | 400,275 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 349,998 | 213,706 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents | 349,998 | 213,706 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2020

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 2 July 2013, and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). 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. The Group primarily engages in the following principal activities during the period:

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

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 September 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 March 2020.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 March 2020, except for the adoption of the following revised International Financial Reporting Standards (“**IFRSs**”) for the first time for the current period’s financial information.

| | |
|---|--|
| Amendments to IFRS 9, IAS 39 and IFRS 7 | <i>Interest Rate Benchmark Reform</i> |
| Amendment to IFRS 16 | <i>Covid-19-Related Rent Concessions (early adopted)</i> |
| Amendments to IAS 1 and IAS 8 | <i>Definition of Material</i> |

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and impact of the revised IFRSs are described below:

- (a) 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 did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (b) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (c) 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. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment, which is the manufacture and sale of CNC high precision machine tools 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.

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

5. REVENUE

An analysis of revenue is as follows:

Segments

| | For the six months ended 30 September | |
|---|--|---------------------------------|
| | 2020 RMB' 000 (Unaudited) | 2019 RMB' 000 (Unaudited) |
| Types of goods or services | | |
| Sale of goods | 1,376,536 | 1,074,029 |
| Rendering of services | 2,296 | 1,825 |
| Total revenue from contracts with customers | <u>1,378,832</u> | <u>1,075,854</u> |
| Geographical information | | |
| Mainland China | 1,147,968 | 822,263 |
| Overseas | 230,864 | 253,591 |
| Total revenue from contracts with customers | <u>1,378,832</u> | <u>1,075,854</u> |
| Timing of revenue recognition | | |
| Goods transferred at a point in time | 1,376,536 | 1,074,029 |
| Services rendered at a point in time | 2,296 | 1,825 |
| Total revenue from contracts with customers | <u>1,378,832</u> | <u>1,075,854</u> |

6. PROFIT BEFORE TAX

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

| | For the six months ended 30 September | |
|--|--|---------------------------------|
| | 2020 RMB' 000 (Unaudited) | 2019 RMB' 000 (Unaudited) |
| Cost of inventories sold | 1,060,332 | 833,950 |
| Cost of services provided | 764 | 1,060 |
| (Reversal of write-down)/write-down of inventories to net realisable value | (2,884) | 6,069 |
| Employee benefit expense (including directors' remuneration): | | |
| Wages and salaries | 96,524 | 86,860 |
| Pension scheme contributions | 4,120 | 4,903 |
| Social security contributions and accommodation benefits | 10,347 | 9,894 |
| Interest income | 6,587 | (2,791) |
| Interest on lease liabilities | 33 | 49 |
| Lease payments not included in the measurement of lease liabilities | 1,450 | 1,407 |
| Interest arising from discounted bills | 923 | – |
| Provision/(reversal) for impairment of trade receivables | 351 | (35) |
| Provision for impairment of financial assets at fair value through other comprehensive income | 5,205 | 4,606 |
| Reversal for impairment of prepayments, other receivables and other assets | (3) | (27) |
| Net gain on disposal of items of property, plant and equipment | (5) | (159) |
| Depreciation of property, plant and equipment | 21,680 | 22,632 |
| Depreciation of right-of-use assets | 1,321 | 1,341 |
| Amortisation of intangible assets | 474 | 469 |
| Exchange differences, net | 227 | 135 |

7. INCOME TAX EXPENSE

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

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

Hong Kong profits tax is to be provided at the rate of 16.5% (six months ended 30 September 2019: 16.5%).

The provision for Mainland China current income tax is based on the statutory rate of 25% (six months ended 30 September 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, except for a certain high and new technology enterprise of the Group in Mainland China, which is taxed at a preferential rate of 15%.

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

| | For the six months ended 30 September | |
|--|--|-------------|
| | 2020 | 2019 |
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Unaudited) |
| Income tax: | | |
| Current tax | 58,787 | 45,185 |
| Deferred tax | 9,873 | (375) |
| | <hr/> | <hr/> |
| Total tax charge for the period | 68,660 | 44,810 |
| | <hr/> | <hr/> |

8. DIVIDENDS

The proposed final dividend for the year ended 31 March 2020 of HK\$0.15 per share totalling HK\$57,149,100 was approved by the shareholders on 17 August 2020 and fully paid in September 2020.

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

During the six months ended 30 September 2020, the Company repurchased 422,000 of its shares on the Stock Exchange for a total consideration of RMB2,532,000. 376,000 shares were cancelled, among which 144,000 shares were previously repurchased and 232,000 shares were repurchased in this period. Details are set out in note 13.

The Group had no potentially dilutive ordinary shares in issue during the reporting periods. The calculations of basic and diluted earnings per share are based on:

| | For the six months ended 30 September | |
|--|--|--------------------|
| | 2020 | 2019 |
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Unaudited) |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent | <u>148,358</u> | <u>100,744</u> |
| Shares | | |
| Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation | <u>380,973,344</u> | <u>381,370,000</u> |

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2020, the Group acquired assets with a cost of RMB24,989,000 (30 September 2019: RMB114,092,000).

Assets with a net book value of RMB172,000 were disposed of by the Group during the six months ended 30 September 2020 (30 September 2019: RMB359,000), resulting in a net gain on disposal of RMB5,000 (30 September 2019: a net gain on disposal of RMB159,000).

During the six months ended 30 September 2020 (30 September 2019: nil), no impairment loss on property, plant and equipment was recognised.

11. TRADE AND NOTES RECEIVABLES

| | 30 September 2020 RMB' 000 (Unaudited) | 31 March 2020 RMB' 000 (Audited) |
|--------------------|---|---|
| Trade receivables* | 176,312 | 131,017 |
| Notes receivable | 498,349 | 307,581 |
| Impairment | (1,160) | (809) |
| | <u>673,501</u> | <u>437,789</u> |

* Trade receivables include trade receivables from the Controlling Shareholder and other related parties.

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

Ageing analysis of trade receivables based on the invoice date

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

| | 30 September 2020 RMB' 000 (Unaudited) | 31 March 2020 RMB' 000 (Audited) |
|----------------------|---|---|
| Within 3 months | 134,082 | 105,570 |
| 3 months to 6 months | 42,230 | 25,447 |
| | <u>176,312</u> | <u>131,017</u> |

12. TRADE AND NOTES PAYABLES

| | 30 September 2020 RMB' 000 (Unaudited) | 31 March 2020 RMB' 000 (Audited) |
|-----------------|---|---|
| Trade payables* | 279,505 | 227,307 |
| Notes payable | 141,123 | 69,878 |
| | <u>420,628</u> | <u>297,185</u> |

* Trade payables include trade payables to the Controlling Shareholder.

Ageing analysis of trade payables based on the invoice date

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

| | 30 September 2020 RMB' 000 (Unaudited) | 31 March 2020 RMB' 000 (Audited) |
|-----------------|---|---|
| Within 3 months | 278,791 | 226,952 |
| Over 3 months | 714 | 355 |
| | <u>279,505</u> | <u>227,307</u> |

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

13. SHARE CAPITAL

By the end of 30 September 2020, the Company repurchased 566,000 of its shares on the Stock Exchange for a total consideration of RMB2,532,000 in accordance with section 257 of the Hong Kong Companies Ordinance, among which 144,000 shares were previously repurchased and 422,000 shares were repurchased in this period. 376,000 of the repurchased shares were cancelled with a total amount of RMB2,265,000, among which 144,000 shares were previously repurchased and 232,000 shares were repurchased in this period.

14. COMMITMENTS

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

| | 30 September 2020 RMB' 000 (Unaudited) | 31 March 2020 RMB' 000 (Audited) |
|-----------------------------------|---|---|
| Contracted, but not provided for: | | |
| Buildings | 45,172 | 35,106 |
| Machinery | 31,634 | 14,749 |
| | 76,806 | 49,855 |

15. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

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

(b) The Group had the following material transactions with related parties during the six months ended 30 September 2020 and 2019:

| | Note | For the six months ended 30 September | |
|------------------------------------|------|---------------------------------------|---------------------------------|
| | | 2020 RMB' 000 (Unaudited) | 2019 RMB' 000 (Unaudited) |
| Sales of goods to | | | |
| Tsugami Corporation | (i) | 217,126 | 214,896 |
| Tsugami Korea Co., Ltd. | (i) | 6,454 | 33,237 |
| | | 223,580 | 248,133 |
| Purchases of goods from | | | |
| Tsugami Corporation | (i) | 76,063 | 73,244 |
| Purchases of equipment from | | | |
| Tsugami Corporation | (i) | - | 2,689 |
| Licence fee to | | | |
| Tsugami Corporation | (i) | 63,176 | 49,620 |
| Service fee to | | | |
| Tsugami Corporation | (i) | 2,662 | 4,309 |

Note:

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

15. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Outstanding balances with related parties

| | 30 September 2020 RMB' 000 (Unaudited) | 31 March 2020 RMB' 000 (Audited) |
|--|---|---|
| Amount due from the Controlling Shareholder | | |
| Tsugami Corporation | | |
| Trade receivables | <u>71,803</u> | <u>55,156</u> |
| Amount due from a company controlled by the Controlling Shareholder | | |
| Tsugami Korea Co., Ltd. | | |
| Trade receivables | <u>578</u> | <u>23,209</u> |
| Amounts due to the Controlling Shareholder | | |
| Tsugami Corporation | | |
| Trade payables | <u>12,570</u> | 47,393 |
| Other payables | <u>50</u> | <u>50</u> |
| | <u>12,620</u> | <u>47,443</u> |

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

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, pledged deposits, trade and notes receivables, financial assets included in prepayments, other receivables and other assets, financial assets at fair value through profit or loss, trade and notes payables, financial liabilities included in other payables and accruals, and lease liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

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

The carrying amounts and fair values of the Group's financial instruments are as follows:

30 September 2020

| | Carrying amount RMB' 000 (Unaudited) | Fair value RMB' 000 (Unaudited) |
|---|---|---------------------------------------|
| Financial assets | | |
| Trade and notes receivables | 673,501 | 673,501 |
| Financial assets included in prepayments, other receivables and other assets | 5,260 | 5,260 |
| Pledged deposits | 15,712 | 15,712 |
| Cash and cash equivalents | 349,998 | 349,998 |
| | <u>1,044,471</u> | <u>1,044,471</u> |
| Financial liabilities | | |
| Trade and notes payables | 420,628 | 420,628 |
| Financial liabilities included in other payables and accruals | 34,529 | 34,529 |
| Lease liabilities | 2,399 | 2,399 |
| | <u>457,556</u> | <u>457,556</u> |

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

31 March 2020

| | Carrying amount RMB' 000 (Audited) | Fair value RMB' 000 (Audited) |
|---|---|-------------------------------------|
| Financial assets | | |
| Trade and notes receivables | 437,789 | 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 | <u>205,010</u> | <u>205,010</u> |
| | <u>782,525</u> | <u>782,525</u> |
| Financial liabilities | | |
| Trade and notes payables | 297,185 | 297,185 |
| Lease liabilities | 2,987 | 2,987 |
| Financial liabilities included in other payables and accruals | <u>45,174</u> | <u>45,174</u> |
| | <u>345,346</u> | <u>345,346</u> |

16. 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 30 September 2020

| | Fair value measurement using | | | Total RMB' 000 |
|------------------|--|--|--|-------------------|
| | Quoted prices in active markets (Level 1) RMB' 000 | Significant observable inputs (Level 2) RMB' 000 | Significant unobservable inputs (Level 3) RMB' 000 | |
| Notes receivable | – | 498,349 | – | 498,349 |

As at 31 March 2020

| | Fair value measurement using | | | Total RMB' 000 |
|--|--|--|--|-------------------|
| | Quoted prices in active markets (Level 1) RMB' 000 | Significant observable inputs (Level 2) RMB' 000 | Significant unobservable inputs (Level 3) 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 |

17. EVENTS AFTER THE REPORTING PERIOD

On 12 November 2020, the board of directors have declared an interim dividend of HK\$0.15 per share in aggregate of HK\$57,120,600 payable to the equity holders of the Company for the six months ended 30 September 2020.

18. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited interim financial information was approved and authorised for issue by the board of directors on 12 November 2020.