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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 RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019**

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 2019 together with the unaudited comparative figures for the corresponding period in 2018. Such results have been reviewed by the external auditor Ernst & Young and the audit committee of the Company.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 September	
		2019	2018
	Notes	RMB'000 (Unaudited)	RMB'000 (Unaudited)
REVENUE	4	1,075,854	1,642,510
Cost of sales		<u>(841,079)</u>	<u>(1,228,982)</u>
GROSS PROFIT		234,775	413,528
Other income and gains		12,046	13,696
Selling and distribution expenses		(54,672)	(61,772)
Administrative expenses		(41,453)	(71,347)
Impairment losses on financial assets		(4,544)	–
Other expenses		(549)	(1,250)
Finance costs		<u>(49)</u>	<u>–</u>
PROFIT BEFORE TAX		145,554	292,855
Income tax expense	5	<u>(44,810)</u>	<u>(73,546)</u>
PROFIT FOR THE PERIOD		<u>100,744</u>	<u>219,309</u>
ATTRIBUTABLE TO:			
Owners of the parent		<u>100,744</u>	<u>219,309</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
– Profit for the period	7	<u>0.26</u>	<u>0.58</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 September	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>100,744</u>	<u>219,309</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Changes in fair value of financial assets at fair value through other comprehensive income	<u>1,639</u>	<u>—</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>1,639</u>	<u>—</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>1,639</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>102,383</u>	<u>219,309</u>
ATTRIBUTABLE TO:		
Owners of the parent	<u>102,383</u>	<u>219,309</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2019 <i>RMB'000</i> (Unaudited)	31 March 2019 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		437,194	346,093
Right-of-use assets		46,323	—
Prepaid land lease payments		—	42,235
Other intangible assets		4,068	3,936
Deferred tax assets		10,970	8,664
Total non-current assets		498,555	400,928
CURRENT ASSETS			
Inventories		610,187	647,303
Trade and notes receivables	8	498,577	499,345
Prepayments, other receivables and other assets		24,166	14,362
Financial assets at fair value through profit or loss		25,000	—
Pledged deposits		12,123	14,627
Cash and cash equivalents		213,706	400,275
Total current assets		1,383,759	1,575,912
CURRENT LIABILITIES			
Trade and notes payables	9	270,091	384,866
Other payables and accruals		90,825	133,076
Lease liabilities due within one year		1,587	—
Tax payable		22,819	14,939
Provision		7,120	12,791
Total current liabilities		392,442	545,672
NET CURRENT ASSETS			
		991,317	1,030,240
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,489,872	1,431,168

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

	30 September 2019 <i>RMB'000</i> (Unaudited)	31 March 2019 <i>RMB'000</i> (Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	1,433	—
Deferred tax liabilities	4,603	2,126
Other liabilities	3,700	—
Deferred income	13,000	13,000
Total non-current liabilities	22,736	15,126
Net assets	1,467,136	1,416,042
EQUITY		
Equity attributable to owners of the parent		
Issued capital	320,312	320,312
Reserves	1,146,824	1,095,730
Total equity	1,467,136	1,416,042

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**”) since 25 September 2017. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman KY1-1104, 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 AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 September 2019 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 2019.

2.2 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 2019, except for the adoption of the new and revised International Financial Reporting Standards (“**IFRSs**”) effective as of 1 April 2019.

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

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

Other than as explained below regarding the impact of IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group 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 is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings as at 1 April 2019, and the comparative information for the year ended 31 March 2019 was not restated and continues to be reported under IAS 17.

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 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 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.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

(a) Adoption of IFRS 16 (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 short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases that, at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities as at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 April 2019. The Group elected to present the lease liabilities separately in the statement of financial position.

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 as at 1 April 2019:

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

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

(a) Adoption of IFRS 16 (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

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

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

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

	RMB'000 (Unaudited)
Operating lease commitments as at 31 March 2019	4,798
Weighted average incremental borrowing rate as at 1 April 2019	4.61%
Discounted operating lease commitments as at 1 April 2019	4,738
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 March 2020	(1,164)
Lease liabilities as at 1 April 2019	3,574

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

(a) Adoption of IFRS 16 (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 March 2019 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 April 2019.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". 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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

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 the incremental borrowing rate at the lease commencement date if 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 future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

(a) Adoption of IFRS 16 (continued)

Significant judgement in determining the lease term of contracts with renewal options (continued)

The Group has the option, under some of its leases, to lease property for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of property due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follows:

	Right-of-use assets	
	Land and	
	properties	Lease liabilities
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 April 2019	47,176	3,574
Addition	488	488
Depreciation charge	(1,341)	–
Interest expense	–	49
Payments	–	(1,091)
As at 30 September 2019	46,323	3,020

The Group recognised rental expenses from short-term leases of RMB1,046,000 for the six months ended 30 September 2019.

- (b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. 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 significant impact on the Group's interim condensed consolidated financial information.

3 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. 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.

4 REVENUE

An analysis of revenue is as follows:

Segments

	For the six months ended 30 September	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Type of goods or services		
Sale of goods	1,074,029	1,640,678
Rendering of services	1,825	1,832
Total revenue from contracts with customers	1,075,854	1,642,510
Geographical information		
Mainland China	822,263	1,114,427
Overseas	253,591	528,083
Total revenue from contracts with customers	1,075,854	1,642,510
Timing of revenue recognition		
Goods transferred at a point in time	1,074,029	1,640,678
Services transferred over time	1,825	1,832
Total revenue from contracts with customers	1,075,854	1,642,510

5 INCOME TAX

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

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

Hong Kong profits tax is to be provided at the rate of 16.5% (for the six months ended 30 September 2018: 16.5%). No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the six months ended 30 September 2019 and 2018.

The provision for Mainland China current income tax is based on the statutory rate of 25% (for the six months ended 30 September 2018: 25%) of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 (the “**New Corporate Income Tax Law**”).

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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Income tax:		
Current tax	45,185	71,789
Deferred tax	(375)	1,757
Total tax charge for the period	44,810	73,546

6 DIVIDENDS

The proposed final dividend for the year ended 31 March 2019 of HK\$0.15 per share totalling HK\$57,205,500 was approved by the shareholders on 19 August 2019 and fully paid in September 2019.

7 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.

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

	For the six months ended 30 September	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	100,744	219,309
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	381,370,000	381,370,000

8 TRADE AND NOTES RECEIVABLES

	30 September 2019	31 March 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables*	144,731	165,152
Notes receivable	354,792	335,174
Impairment	(946)	(981)
	498,577	499,345

* Trade receivables include trade receivables from 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.

8 TRADE AND NOTES RECEIVABLES (CONTINUED)

Ageing analysis of trade receivables based on 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 2019 RMB'000 (Unaudited)	31 March 2019 RMB'000 (Audited)
Within 3 months	119,008	144,776
3 months to 6 months	25,723	20,376
	<u>144,731</u>	<u>165,152</u>

9 TRADE AND NOTES PAYABLES

	30 September 2019 RMB'000 (Unaudited)	31 March 2019 RMB'000 (Audited)
Trade payables*	174,904	254,619
Notes payable	95,187	130,247
	<u>270,091</u>	<u>384,866</u>

* Trade payables include trade payables to the Controlling Shareholder.

Ageing analysis of trade payables based on invoice date

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

	30 September 2019 RMB'000 (Unaudited)	31 March 2019 RMB'000 (Audited)
Within 3 months	174,307	254,215
Over 3 months	597	404
	<u>174,904</u>	<u>254,619</u>

10 EVENTS AFTER THE REPORTING PERIOD

On 12 November 2019, the Board has declared an interim dividend of HK\$0.15 per share in aggregate of HK\$57,205,500 payable to the equity holders of the Company for the six months ended 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Sino-US trade frictions have been constantly escalating since its outbreak last year, with the situation getting more severe leading to an extremely obvious effect on both the Chinese economy and the global economy. Against this backdrop, there was a decrease in the demand from the Chinese manufacturing industry for high-end CNC machine tools. According to the statistics of key industry players released by the National Bureau of Statistics of China and the China Machine Tool & Tool Builders' Association, the overall operation of the machine tool industry presented a downward trend in the first half of 2019, with decreases in the major economic indicators such as revenue, profit, production volume and production value*.

The above circumstances inevitably imposed challenges on the business of the Group. For the six months ended 30 September 2019 (the “**Period under Review**”), the Group recorded sales revenue of approximately RMB1,075,854,000, representing a decrease of approximately 34.5% as compared to the same period last year. The gross profit margin decreased from approximately 25.2% for the same period last year to approximately 21.8% for the Period under Review. The Group's net profit amounted to approximately RMB100,744,000 for the Period under Review, representing a decrease of approximately 54.1% as compared to the same period last year.

Basic earnings per share amounted to approximately RMB0.26 for the Period under Review, representing a decrease of approximately 55.2% as compared to the same period last year.

During the Period under Review, it was an issue faced by the Group on how to improve the operation quality and ensure profitability amid the severe economic situation. The Group is in the process of making adjustment to its business strategies to resist the effect of external instable factors. The Group continues to invest in new technologies and new models, upgrade the existing models, and adjust and strengthen its operating network, in order to explore potential market opportunities while making efforts to enhance its own capabilities. Meanwhile, the Group also adopts multiple measures in a flexible way to effectively improve product quality, reduce cost, improve efficiency and reduce stocks.

FINANCIAL REVIEW

Revenue

During the six months ended 30 September 2019, total revenue amounted to approximately RMB1,075,854,000, representing a year-on-year decrease of approximately RMB566,656,000 or 34.5%. The decrease in the total revenue was primarily due to the fact that (i) the Company recorded a significant decrease in its main products, precision lathes, with sales amounting to approximately RMB913,581,000, representing a decrease of approximately 36.0%, under the influence of overall economic situation and downturn in the automobile industry; and (ii) other machines like precision grinding machines also recorded a considerable decrease in sales to approximately RMB40,520,000, representing a decrease of approximately 53.1 % as compared to the same period last year.

The Group's revenue from its precision machining centres increased by approximately 56.1% from approximately RMB51,228,000 for the same period last year to approximately RMB79,963,000 for the Period under Review, due to the investment in new models.

* sourced from an article issued by China Industry News (http://www.cinn.cn/zbgy/201908/t20190820_217256.html)

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

	For the six months ended 30 September 2019	Proportion (%)	For the six months ended 30 September 2018	Proportion (%)	Period- on-period increase/ (decrease) (%)
Precision lathes	913,581	84.9%	1,427,079	86.9%	(36.0)%
Precision machining centres	79,963	7.4%	51,228	3.1%	56.1%
Precision grinding machines	40,520	3.8%	86,430	5.3%	(53.1)%
Precision thread and form rolling machines	4,721	0.4%	7,936	0.5%	(40.5)%
Others	37,069	3.5%	69,837	4.2%	(46.9)%
Total	<u>1,075,854</u>	<u>100%</u>	<u>1,642,510</u>	<u>100%</u>	<u>(34.5)%</u>

* Certain models of machine last period have been reclassified to conform with the presentation for the Period under Review.

Gross Profit and Gross Profit Margin

During the six months ended 30 September 2019, gross profit decreased by approximately 43.2% to approximately RMB234,775,000 as compared to the same period last year; the overall gross profit margin decreased by approximately 3.4% to approximately 21.8% as compared to approximately 25.2% for the same period last year, mainly due to (i) the fact that some of the production costs were fixed costs and were less sensitive to the decline in sales volume and production volume of the Group under the influence of overall stagnant economy; and (ii) increased competition which squeezed profit margins of the Company in an economic downturn.

Other Income and Gains

Other income and gains of the Group primarily consist of bank interest income, gain on disposal of items of property, plant and equipment, government grants, compensation income, foreign exchange gains and others. During the six months ended 30 September 2019, other income and gains decreased by approximately RMB1,650,000 as compared to the same period last year to approximately RMB12,046,000, primarily due to the fact that no gain on foreign exchange was recorded by the Group during the Period under Review, while a gain on foreign exchange of approximately RMB11,044,000 was recorded for the same period last year. The decrease in the Group's other income and gains was partially offset by the increases in (i) bank interest income by approximately RMB822,000 to approximately RMB2,791,000; and (ii) government grants by approximately RMB7,863,000 to approximately RMB8,122,000 for the Period under Review. The increase in government grants during the Period under Review was primarily attributable to a government grant of approximately RMB6,189,000 in relation to social insurance reimbursement.

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 decreased by approximately RMB7,100,000, or approximately 11.5%, as compared to the same period last year to approximately RMB54,672,000, representing approximately 5.1% of the Group's revenue for the same period. Such decrease was mainly attributable to the corresponding decrease in selling and distribution expenses along with the substantial decrease in revenue during the Period under Review.

Administrative Expenses

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

During the Period under Review, administrative expenses decreased by approximately RMB29,894,000, or approximately 41.9%, as compared to the same period last year to approximately RMB41,453,000, mainly due to the decrease in administrative expenses as a result of a decrease in production volume attributable to a decrease in sales demand during the Period under Review.

Other Expenses

Other expenses primarily include foreign exchange losses, losses on the disposal of fixed assets and others. During the Period under Review, other expenses decreased by approximately 56.1% as compared to the same period last year to approximately RMB549,000, mainly due to the decrease by RMB317,000 in losses on the disposal of fixed assets.

Impairment Losses on Financial Assets

During the Period under Review, impairment losses on financial assets increased to approximately RMB4,544,000 as compared to nil during the same period last year, mainly due to the difference between the initial recognition of notes receivables and the corresponding amount of revenue during the Period under Review.

Finance Costs

During the Period under Review, finance costs were approximately RMB49,000 (for the same period last year: nil), which was due to the interest expense arising from lease liabilities recognised by the Group resulted from the adoption of IFRS 16 (Leases) effective as of 1 April 2019.

Income Tax Expenses

During the Period under Review, income tax expenses decreased by approximately 39.1% as compared to the same period last year to approximately RMB44,810,000, mainly due to the significant decrease 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 decreased by approximately 54.1% to approximately RMB100,744,000 for the six months ended 30 September 2019, representing a decrease of approximately RMB118,565,000 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 2019, total cash and cash equivalents of the Group amounted to approximately RMB213,706,000 (as at 31 March 2019: approximately RMB400,275,000). Such decrease was mainly because the cash generated from operations were gradually used for the capital expenditures of Anhui Production Plants (as defined below) project and dividend distribution.

As at 30 September 2019, the Group's cash and cash equivalents were mainly held in Renminbi and partly held in Japanese yen ("JPY"), US dollars and Hong Kong dollars.

As at 30 September 2019, the Group recorded net current assets of approximately RMB991,317,000 (as at 31 March 2019: approximately RMB1,030,240,000) and its current ratio, calculated by dividing total current assets by total current liabilities, was approximately 3.5 times (as at 31 March 2019: approximately 2.9 times). Capital expenditures for the six months ended 30 September 2019 amounted to approximately RMB114,693,000, which was mainly related to the addition of factory buildings and mechanical equipment.

Bank loans, which are used for general working capital, purchases of production plant machinery and equipment, purchases of parts and components and payment of dividends, are denominated in Renminbi. As at 30 September 2019 and 31 March 2019, the Group has no outstanding bank loans and discounted bills with recourse. As at 30 September 2019 and 31 March 2019, the Group did not have any bank loans and other borrowings and therefore had no applicable gearing ratio, calculated by dividing total bank loans and other borrowings by total equity.

Capital Commitments

As at 30 September 2019, the Group had capital commitments contracted but not contributed amounting to approximately RMB62,696,000 (as at 31 March 2019: approximately RMB1,801,000).

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

On 5 April 2019, Precision Tsugami (Anhui) Corporation* (安徽津上精密機床有限公司)(“**Anhui PTC**”), an indirect wholly-owned subsidiary of the Company, entered into the First 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**”). Pursuant to which the Contractor will be responsible for the construction and installation works of certain facilities (including production plants 1, 2, 3 and 4) of the Group’s production plants located in Bowang District, Ma’ anshan, Anhui Province, the PRC (“**Anhui Production Plants**”) at the consideration of RMB80.35 million. On 1 August 2019 (after trading hours), Anhui PTC entered into the Second Phase Construction Agreement with the Contractor, pursuant to which the Contractor will be responsible for the construction and installation works of certain facilities, including production plants 5, 6 and 7, warehouses and dangerous goods warehouses in the Anhui Production Plants at the consideration of RMB95.18 million. The first phase and second phase construction works in relation to the Anhui Production Plants are expected to complete in December 2021. For further information of the construction of Anhui Production Plants, please refer to the announcement of the Company dated 1 August 2019.

Save as 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.

Contingent Liabilities

As at 30 September 2019, the Group had no material contingent liabilities.

Currency Risk and Management

Apart from a few overseas businesses settled in JPY, 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 arise.

Employees and Remuneration Policy

As at 30 September 2019, the Group employed 1,471 employees (as at 31 March 2019: 1,572), of whom 23 (as at 31 March 2019: 21) were transferred employees from the Controlling Shareholder. The Group’s staff costs (including salaries, bonuses, social insurance and provident funds) amounted to approximately RMB101,657,000 in aggregate (including directors’ emoluments) (for the six months ended 30 September 2018: RMB108,302,000), representing approximately 9.4% of total revenue of the Group during the Period under Review.

* *For identification purpose only*

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

OUTLOOK

At present, China and the United States still need to reach consensus in the trade negotiations, and the situation is unclear.

The trade friction between China and the United States had a significant negative impact on China's manufacturing industry and the overall economic situation. The growth rate of the whole industry has been restricted due to the increasing number of enterprises adopting a wait-and-see attitude and controlling the investment in equipment due to the anxiety about the future economic situation. In this situation, the Group is more cautious towards the results in the second half of the financial year, and the market challenges remain serious.

In this grim environment, the Group's operation faced with great challenges. The Group will, as always, adopt sound business strategies and a pragmatic and progressive attitude to face up to difficulties and seize industry opportunities in the challenging market environment. We will strive to improve our operational quality and further enhance the Group's operational and financial performance.

In the long term, the Group believes that the expanding trend of CNC machines tools market in China will not change. The Group will not be influenced by the short-term change of economic situation and will continue its construction of Anhui Production Plants in preparation for the next round of equipment investment boom.

EVENTS AFTER THE END OF THE PERIOD UNDER REVIEW

After the Period under Review and up to the date of this announcement, 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 six months ended 30 September 2019 (2018: HK\$0.2) to the shareholders of the Company whose names appear on the register of members of the Company as at Thursday, 12 December 2019, the payment of which is expected to be made on Monday, 13 January 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the period from Tuesday, 10 December 2019 to Thursday, 12 December 2019 (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, 9 December 2019.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the six months ended 30 September 2019.

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 announcement, 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%.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the Period under Review, the Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with the code provisions 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 (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 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 2019 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim report of the Company will be dispatched to the shareholders of the Company and published on the Hong Kong Exchanges and Clearing Limited's website (www.hkexnews.hk) and the Company's website (www.tsugami.com.cn) in due course.

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

Hong Kong, 12 November 2019

As at the date of this announcement, the executive Directors are Dr. Tang Donglei and Dr. Li Zequn; the non-executive Directors are Mr. Takao Nishijima, Ms. Mami Matsushita and Mr. Manabu Tanaka; and the independent non-executive Directors are Dr. Eiichi Koda, Dr. Huang Ping and Mr. Tam Kin Bor.