# THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offers, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Automation Group Limited, you should at once hand this Composite Document and the accompanying Forms of Acceptance to the purchaser(s) or transferee(s) or the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Forms of Acceptance, the contents of which form part of the terms of the Offers contained herein.



**Araco Investment Limited**

*(Incorporated in the British Virgin Islands with limited liability)*

中國自動化

中國自動化集團有限公司

China Automation Group Limited

(HK stock code 0569)

*(Incorporated in the Cayman Islands with limited liability)*

## CONDITIONAL MANDATORY CASH OFFERS BY SOMERLEY CAPITAL LIMITED ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING OPTIONS OF CHINA AUTOMATION GROUP LIMITED (OTHER THAN THOSE ALREADY OWNED BY THE CONCERT GROUP)

**Financial Adviser to the Offeror**

**SOMERLEY CAPITAL LIMITED**

**Independent Financial Adviser to the Independent Board Committee**

OPTIMA CAPITAL

**Optima Capital Limited**

A letter from Somerley containing, among other things, details of the terms of the Offers is set out on pages 7 to 22 of this Composite Document. A letter from the Board is set out on pages 23 to 27 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation in respect of the Offers to the Independent Shareholders and the Independent Optionholders is set out on pages IBC-1 to IBC-2 of this Composite Document.

A letter from Optima Capital containing its advice to the Independent Board Committee is set out on pages IFA-1 to IFA-29 of this Composite Document.

The procedures for acceptance and settlement of the Offers and other related information are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance. The WHITE Form of Share Offer Acceptance should be received by the Registrar and the YELLOW Form of Option Offer Acceptance must be received by the company secretary of the Company by no later than 4:00 p.m. on Friday, 26 August 2016 or such later time and/or the date as the Offeror may decide and announce in accordance with the requirements of the Takeovers Code.

Persons receiving copies of this Composite Document, Forms of Acceptance or any related documents including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward them to any jurisdiction outside Hong Kong should read the information in this regard contained in information to this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder and each Overseas Optionholder wishing to accept the relevant Offer to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including but not limited to obtaining any governmental, exchange control or other consents or any registration or filing which may be required and compliance with other necessary formalities or legal or regulatory requirements. Each Overseas Shareholder and Overseas Optionholder is advised to seek professional advice before deciding whether or not to accept the Offers.

This Composite Document will remain on the websites of the Stock Exchange at http://www.hkexnews.hk and the Company at www.cag.com.hk as long as the Offers remain open.

Capitalised terms used in this cover page have the meanings ascribed to them in the section headed "Definitions" in this Composite Document.

5 August 2016

# CONTENTS

*The timetable set out below is indicative only and may be subject to changes. Announcements will be made in the event of any changes to the timetable as and when appropriate. All references to times and dates contained in this Composite Document are to Hong Kong time and dates.*

| **Event** | **Time & Date 2016** |
|---|---|
| Despatch date of this Composite Document and the accompanying Forms of Acceptance *(Note 1)* | Friday, 5 August |
| Offers open for acceptance *(Note 1)* | Friday, 5 August |
| Acceptance of the Share Offer by the IU Shareholders and the Offers declared unconditional *(Note 7)* | by 4:00 p.m. on Monday, 8 August |
| First Closing Date and Closing Date assuming that the Offers are declared unconditional in all respects on the date of the acceptances by the IU Shareholders *(Notes 2 and 8)* | Friday, 26 August |
| Latest time and date for acceptance of the Offers *(Notes 3 and 8)* | 4:00 p.m. on Friday, 26 August |
| Announcement of the results of the Offers at the Closing Date on the website of the Stock Exchange | 7:00 p.m. on Friday, 26 August |
| Latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances received at or before the latest time for acceptance of the Offers on the Closing Date *(Notes 4 and 5)* | Tuesday, 6 September |

*Note 1:* The Offers, which are conditional, are made on the date of posting of this Composite Document, and are capable of acceptance on and from that date until the Closing Date.

*Note 2:* The latest time for acceptance of the Offers is 4:00 p.m. on Friday, 26 August 2016 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Offers until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Closing Date or, if the Offers are at that time unconditional, state that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the Offers.

*Note 3:* Beneficial owners of Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

*Note 4:* Acceptances of the Offers are irrevocable and are not capable of being withdrawn, except in the circumstances as set out in the section headed "6. Right of Withdrawal" in Appendix I to this Composite Document.

*Note 5:* Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty in respect of acceptances of the Share Offer) payable for the Offer Shares/Options under the Share Offer/Option Offer will be posted to the accepting Shareholders/Optionholders by ordinary post at their own risk as soon as possible, but in any event within seven (7) business days of (i) the date of receipt by the Registrar (in the case of the Share Offer) or the company secretary of the Company (in the case of the Option Offer) of all the relevant documents render the acceptance under the Offers complete and valid, or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.

*Note 6:* In any event, in accordance with the Takeovers Code, when the Offers become or are declared unconditional in all respects, at least 14 days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the Offers. The Offeror has the right, subject to the Takeovers Code, to extend the Offers until such date as it may determine or as permitted by the Executive. The Option Offer is conditional upon Share Offer becoming or being declared unconditional in all respect and will remain open for as long as the Share Offer remains open for acceptance.

*Note 7:* Pursuant to the Irrevocable Undertaking, the IU Shareholders will upon request, as soon as possible and in any event before 4:00 p.m. (Hong Kong time) on the business day after the despatch of this Composite Document (i.e. Monday, 8 August 2016), tender their acceptance of the Share Offer in respect of the IU Shares in accordance with the terms of the Share Offer and their obligations under the Irrevocable Undertaking, by lodging the duly completed and signed form of acceptance and transfer in respect of the IU Shares in accordance with the instructions printed thereon with the Registrar.

The percentage of the share capital of the Company made up by all of the IU Shares and the Shares owned by the Concert Group is over 50.00%. Therefore, once the IU Shareholders tender their acceptance of the Share Offer in respect of the IU Shares under the Irrevocable Undertaking, the acceptance condition of the Share Offer will have been met. Accordingly, the Share Offer and the Option Offer are therefore expected to become unconditional prior to the 7th day after the posting of the Composite Document.

*Note 8:* The latest time and date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances will be varied if there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning, in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offers and the latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances. Instead the latest time for acceptance of the Offers and the posting of remittances will be rescheduled to 4:00 p.m. on the next following business day on which neither of those warnings is in force at any time between 9:00 a.m. and 4:00 p.m.

Save as mentioned above, if the latest time for the acceptance of the Offers and the posting of remittances do not take effect on the date and time as stated above, other dates mentioned above may be affected. The Offeror and the Company will notify Shareholders and Optionholders by way of announcement of any change to the expected timetable as soon as practicable.

## NOTICE TO HOLDERS OUTSIDE HONG KONG

The making of the Offers to any person with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Shareholders and Overseas Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any person who wishes to accept the Offers to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes or other required payments due in respect of such jurisdiction. Please see the section headed “Overseas Shareholders and Overseas Optionholders” in the “Letter from Somerley” and the section headed “8. Overseas Shareholders and Overseas Optionholders” in Appendix I of this Composite Document.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Offeror and the Company assume no obligation and do not intend to update these forward-looking statements, except as required pursuant to applicable laws.

*In this Composite Document, unless otherwise defined or the context otherwise requires, the following expressions have the following meanings:*

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| "AACL" | Ascendent Automation (Cayman) Limited |
| "ACP" | Ascendent Capital Partners II, L.P. |
| "acting in concert" | has the meaning ascribed to it in the Takeovers Code |
| "Affiliate" | in relation to an individual, that individual's relatives (whether close or distant, including any spouse, child (including adopted child and step-child), parent or sibling of that individual), any person which is Controlled by that individual and/or that individual's relatives (whether close or distant and whether acting singly or together) ("**Controlled Entity**") and any Affiliate of a Controlled Entity; and<br><br>in relation to any other person, any other person that (directly or indirectly) Controls, is Controlled by or is under common Control with such person |
| "Board" | the board of Directors |
| "Brightex" | Brightex Enterprises Limited, a company incorporated in the BVI which is directly wholly-owned by Mr. Xuan and the immediate holding company of the Offeror |
| "business day" | a day on which banks are generally open for business in Hong Kong (other than a Saturday, Sunday or a public holiday in Hong Kong) |
| "BVI" | British Virgin Islands |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "Closing Date" | the date to be stated in this Composite Document as the First Closing Date or any subsequent closing date as and may be announced by the Offeror and approved by the Executive |
| "Company" | China Automation Group Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 00569) |
| "Completion" | completion of the SPA |

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| "Composite Document" | this composite offer and response document jointly issued by the Offeror and the Company to the Independent Shareholders and the Independent Optionholders in accordance with the Takeovers Code |
| "Concert Group" | Offeror, AACL and parties acting in concert with any of them |
| "Consen Group" | Consen Group Holding Inc., a company incorporated in the BVI |
| "Consen Investments" | Consen Investments Holding Inc., a company incorporated in the BVI and the immediate holding company of Consen Group |
| "Consortium Agreement" | the consortium agreement entered into among AACL, the Offeror and Brightex dated 23 June 2016 |
| "Control" or "Controlled" | a) in relation to a corporate person: (i) direct or indirect ownership or control of more than 50% of the outstanding voting securities of such corporate person; (ii) the ability to appoint or remove more than one-half of the directors of the board (or equivalent governing body) of such person; (iii) the right to control the votes at a meeting of the board of directors (or equivalent governing body) of such person; or (iv) the ability to direct or cause the direction of the management and policies of such person (whether by contract or howsoever arising); and<br><br>b) in relation to a non-corporate person: (i) direct or indirect ownership or right to exercise a majority of the voting rights or otherwise; (ii) the ability to direct or cause the direction of the management and policies of such person (whether by contract or howsoever arising); or (iii) the operational or practical control of such person,<br><br>and the terms "Controls", "Controlling" and "Controlled" shall be construed accordingly |
| "Director(s)" | director(s) of the Company |
| "Equity Securities" | with respect to any person, such person's capital stock, membership interests, partnership interests, registered capital, joint venture or other ownership interests (including, without limitation, in the case of the Company, the Shares) or any options, warrants or other securities that are directly or indirectly convertible into, or exercisable or exchangeable for, such capital stock, membership interests, partnership interests, registered capital, joint venture or other ownership interests (whether or not such derivative securities are issued by such person) |

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| “Executive” | the Executive Director of the Corporate Finance Division of the SFC or any delegates of the Executive Director |
| “Facility Agreement” | the facility agreement entered into between AACL as lender and the Offeror as borrower dated 23 June 2016 |
| “First Closing Date” | the first closing date of the Offers |
| “Form(s) of Acceptance” | the Form of Share Offer Acceptance and/or the Form of Option Offer Acceptance, as the context may indicate |
| “Form of Option Offer Acceptance” | the **YELLOW** form of acceptance and cancellation of the Options in respect of the Option Offer accompanying this Composite Document |
| “Form of Share Offer Acceptance” | the **WHITE** form of acceptance and transfer of the Offer Shares in respect of the Share Offer accompanying this Composite Document |
| “Group” | the Company and its subsidiaries |
| “HK$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Independent Board Committee” | the independent committee of the Board comprising two independent non-executive Directors, namely Mr. Wang Tai Wen and Mr. Ng Wing Fai, established to advise the Independent Shareholders and the Independent Optionholders in respect of the Share Offer and the Option Offer and as to their respective acceptance |
| “Independent Optionholder(s)” | Optionholders other than the Concert Group |
| “Independent Shareholder(s)” | Shareholders other than the Concert Group |
| “Irrevocable Undertaking” | the irrevocable undertaking dated 6 July 2016 executed and delivered by Pengana to the Offeror |
| “IU Shares” | the aggregate of 54,200,000 Shares held by the IU Shareholders, representing approximately 5.28% of the issued share capital of the Company as at the Latest Practicable Date |
| “IU Shareholders” | collectively, Pengana Asia Special Events Master Fund and Lyxor/Pengana Asia Special Events Fund |

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| "Joint Announcement" | the announcement dated 24 June 2016 jointly issued by the Offeror and the Company in connection with, among other things, the Share Transfer and the Offers |
| "Latest Practicable Date" | 1 August 2016, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained in this Composite Document |
| "Last Trading Day" | 11 April 2016, being the last trading day of the Shares prior to the suspension of trading in the Shares on the Stock Exchange pending the publication of the Rule 3.7 Announcement |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Mr. Huang" | Mr. Huang Zhi Yong, an executive Director |
| "Mr. Kuang" | Mr. Kuang Jian Ping, an executive Director |
| "Mr. Xuan" | Mr. Xuan Rui Guo, the Chairman and an executive Director |
| "Mr. Yang" | Mr. Yang Hongyan |
| "Offer Period" | the period from 12 April 2016 (being the date of the first announcement made by the Company pursuant to Rule 3.7 of the Takeovers Code) to the Closing Date |
| "Offer Price" | the price at which the Share Offer will be made, being HK$1.20 per Offer Share |
| "Offer Share(s)" | all the issued Share(s) other than those already owned by the Concert Group |
| "Offeror" | Araco Investment Limited, a company incorporated in the BVI which is indirectly wholly-owned (through Brightex) by Mr. Xuan and owns 457,933,541 Shares as at the Latest Practicable Date |
| "Offers" | the Share Offer and the Option Offer |
| "Optima Capital" | Optima Capital Limited, the independent financial adviser to the Independent Board Committee appointed by the Company with the approval of the Independent Board Committee |

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| "Option Offer" | the conditional mandatory cash offer being made by Somerley on behalf of the Offeror for the cancellation of all outstanding Options (excluding 11,860,000 Options held by the Concert Group, and assuming that no Options are exercised before the close of the Offers) |
| "Option Offer Price" | HK$0.01 per Option |
| "Optionholder(s)" | the registered holder(s) of the Options |
| "Options" | the 102,626,000 outstanding options granted by the Company pursuant to the Share Option Scheme |
| "Overseas Optionholders" | the Optionholders whose addresses, as shown on the register of optionholders of the Company, are outside Hong Kong |
| "Overseas Shareholders" | the Shareholders whose addresses, as shown on the register of members of the Company, are outside Hong Kong |
| "Pengana" | Pengana Capital Limited |
| "PRC" | The People's Republic of China, excluding, for the purpose of this Composite Document, Hong Kong, the Macau Special Administrative Region and Taiwan |
| "Registrar" | Tricor Investor Services Limited, the share registrar and transfer office of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong |
| "Relevant Period" | the period from 12 October 2015, being six months prior to 12 April 2016 (the date of commencement of the Offer Period) and ending on and including the Latest Practicable Date |
| "relevant securities" | has the meaning as defined in Note 4 to Rule 22 of the Takeovers Code |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Rule 3.7 Announcement" | the announcement issued by the Company dated 12 April 2016 pursuant to Rule 3.7 of the Takeovers Code |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |

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| "Share(s)" | ordinary share(s) of HK$0.01 each in the share capital of the Company |
| "Share Offer" | the conditional mandatory cash offer being made by Somerley on behalf of the Offeror for all the issued Shares (other than those already owned by the Concert Group) |
| "Share Offer Closing Date" | the date that all consideration payable by the Offeror under the Share Offer is paid in full pursuant to the Takeovers Code |
| "Share Option Scheme" | the Company's share option scheme adopted pursuant to a resolution passed on 16 June 2007 |
| "Share Transfer" | the transactions contemplated under the SPA |
| "Shareholder(s)" | holder(s) of Share(s) |
| "Somerley" | Somerley Capital Limited, a licensed corporation permitted under SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the financial adviser to the Offeror in respect of the Offers |
| "SPA" | the sale and purchase agreement entered into among Mr. Xuan, the Offeror, Consen Group, Mr. Huang, Mr. Kuang and Mr. Yang on 23 June 2016 in relation to the acquisition of 457,933,541 Shares by the Offeror from Consen Group at a consideration of HK$549,520,249.20 |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Takeovers Code" | the Hong Kong Code on Takeovers and Mergers |
| "US$" | United States dollars, the lawful currency of the United States of America |
| "%" | per cent. |

**SOMERLEY CAPITAL LIMITED**
20th Floor, China Building
29 Queen's Road Central
Hong Kong

5 August 2016

*To the Independent Shareholders and the Independent Optionholders*

Dear Sir/Madam,

## CONDITIONAL MANDATORY CASH OFFERS BY SOMERLEY CAPITAL LIMITED ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING OPTIONS OF CHINA AUTOMATION GROUP LIMITED (OTHER THAN THOSE ALREADY OWNED BY THE CONCERT GROUP)

### INTRODUCTION

The Company was informed by Mr. Xuan that on 23 June 2016 (after trading hours), Mr. Xuan and the Offeror (which is indirectly wholly-owned by Mr. Xuan through Brightex) entered into the SPA with Consen Group, Mr. Huang, Mr. Kuang and Mr. Yang pursuant to which the Offeror agreed to acquire 457,933,541 Shares from Consen Group, representing approximately 44.62% equity interest in the Company as at the date of the SPA for an aggregate consideration of HK$549,520,249.20 (the "**Consideration**").

Completion took place on 24 June 2016. The Consideration under the SPA was fully settled by the internal resources of the Offeror and the issuance of a promissory note by the Offeror.

Immediately prior to Completion, Consen Group, which is indirectly effectively held as to 46.9% by Mr. Xuan, as to 23.45% by each of Mr. Huang and Mr. Kuang and as to 6.2% by Mr. Yang, was interested in 457,933,541 Shares, representing approximately 44.62% voting rights in the Company. Immediately upon Completion, Mr. Xuan and the Offeror which is indirectly wholly-owned by Mr. Xuan, have become interested in 458,933,541 Shares, representing approximately 44.72% voting rights in the Company as at the Latest Practicable Date. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, Mr. Xuan, through the Offeror, is required to make a conditional mandatory cash offer for 567,330,188 Shares, representing all the issued Shares which are not already owned by the Concert Group, and to cancel all outstanding Options (other than those held by the Concert Group).

This letter sets out certain background information of the Offeror, the reasons for making the Offers and the intentions of the Offeror in relation to the Company. The terms of the Offers are set out in this letter, Appendix I – "Further terms and procedures for acceptance of the Offers" to this Composite Document and in the relevant accompanying Forms of Acceptance.

Independent Shareholders and Independent Optionholders are strongly advised to consider carefully the information contained in the "Letter from the Board", the "Letter from the Independent Board Committee", the "Letter from Optima Capital" and the appendices in this Composite Document and to consult their professional advisers before reaching a decision as to whether or not to accept the relevant Offer.

As at the Latest Practicable Date, there were 1,026,263,729 Shares in issue.

**THE OFFERS**

**The Share Offer**

Somerley, on behalf of the Offeror, is making the Share Offer on the following basis:

**For each Offer Share** . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . **HK$1.20 in cash**

The Offer Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date of this Composite Document or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, the record date of which is on or after the date of this Composite Document.

**The Option Offer**

The Option Offer is being made by Somerley on behalf of the Offeror in accordance with Rule 13 of the Takeovers Code for the cancellation of all outstanding Options (excluding 11,860,000 Options held by the Concert Group, and assuming that no Options are exercised before the close of the Offers) on the following basis:

**For cancellation of each Option** . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . **HK$0.01 in cash**

The exercise price of the Options of HK$1.60 per Share is above the Offer Price of HK$1.20 per Offer Share under the Share Offer. Arrangements will be made under the Option Offer to cancel the Options for a nominal payment of HK$0.01 for each Option.

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching to the Options will be entirely cancelled and renounced.

As at the Latest Practicable Date, the Company has outstanding Options in respect of 102,626,000 Shares granted under the Share Option Scheme. As stated in the annual report of the Company for the year ended 31 December 2015, the Options have a validity period from 25 July 2014 to 24 July 2018 and have been and will be exercisable in the following manner: (i) up to approximately one third of the Options became exercisable on 25 July 2015; (ii) up to approximately one third of the Options became exercisable on 25 July 2016; (iii) up to approximately one third of the Options will become exercisable commencing on 25 July 2017, provided that relevant performance targets are achieved and the closing price of the Share on the trading day immediately preceding the date of exercise is HK$2.40 or above (collectively, the "**Conversion Conditions**"). As, among other things, the closing price per Share of HK$1.18 as quoted on the Stock Exchange on 29 July 2016, being the last trading day immediately preceding the Latest Practicable Date, was below HK$2.40, no Options were exercisable as at the Latest Practicable Date.

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional, the Optionholders may exercise the Options within 21 days of the notice of the Offeror (to the extent which the Options have become exercisable on the date of the notice of the Offeror and not already exercised) to its full extent or to the extent specified in such notice. The Options not exercised at the expiry of such 21-day period shall lapse and the Options which have not become exercisable prior to the date of the aforesaid notice of the Offeror will not become exercisable as a result of the Share Offer becoming unconditional.

Save as aforesaid, the Company has no other outstanding shares, options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) that carry a right to subscribe for or which are convertible into Shares.

**Condition of the Offers**

The Share Offer is conditional on valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares already owned by the Concert Group and acquired or agreed to be acquired before or during the Share Offer, will result in the Concert Group holding more than 50% of the voting rights of the Company.

The Option Offer will become unconditional if the Share Offer becomes or is declared unconditional in all respects.

Pursuant to Rule 15.3 of the Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptances for not less than 14 days thereafter. Accordingly, if the Share Offer becomes or is declared unconditional in all respects on or before the 7$^{th}$ day after the posting of this Composite Document, then the Closing Date would be on (but no earlier than) the First Closing Date. If the Share Offer becomes or is declared unconditional in all respects later than the 7$^{th}$ day after the posting of this Composite Document, then the Closing Date would be at least 14 days after the date of such declaration.

Pursuant to the Irrevocable Undertaking, the IU Shareholders will upon request, as soon as possible and in any event before 4:00 p.m. (Hong Kong time) on the business day after the despatch of this Composite Document (i.e. 8 August 2016), tender their acceptance of the Share Offer in respect of the IU Shares in accordance with the terms of the Share Offer and their obligations under the Irrevocable Undertaking.

The percentage of the share capital of the Company made up by all of the IU Shares and the Shares owned by the Concert Group is over 50.00%. Therefore, once the IU Shareholders tender their acceptance of the Share Offer in respect of the IU Shares under the Irrevocable Undertaking, the acceptance condition of the Share Offer will have been met. Accordingly, the Share Offer and the Option Offer are therefore expected to become unconditional prior to the 7th day after the posting of the Composite Document. Further announcements will be made in compliance with the Takeovers Code when the Offers become unconditional.

The Offer Price shall be payable in cash. The Offeror reserves the right to revise the terms of the Offers in accordance with the Takeovers Code.

**The Offers may or may not become unconditional. Shareholders, Optionholders and/or potential investors of the Company should therefore exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their stockbroker, bank manager, solicitor or other professional advisers.**

**Comparisons of Value**

The Offer Price of HK$1.20 per Share represents:

a) a premium of approximately 0.8% over the closing price of HK$1.19 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

b) a premium of approximately 18.8% over the closing price of HK$1.01 per Share as quoted on the Stock Exchange on the Last Trading Day;

c) a premium of approximately 36.2% over the average of the closing prices as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of HK$0.881 per Share;

d) a premium of approximately 44.2% over the average of the closing prices as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day of HK$0.832 per Share;

e) a premium of approximately 42.5% over the average of the closing prices as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day of HK$0.842 per Share; and

f) a discount of approximately 35.6% to the total equity attributable to owners of the Company per Share (based on 1,026,263,729 Shares in issue as at the Latest Practicable Date) of approximately RMB1.592 (equivalent to approximately HK$1.863 at the exchange rate of RMB1=HK$1.17 as at 30 June 2016) as at 30 June 2016.

**Highest and Lowest Share Prices**

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$1.20 per Share on 11 July 2016, 12 July 2016, 14 July 2016, 15 July 2016, 18 July 2016, 20 July 2016, 21 July 2016 and 22 July 2016 and the lowest closing price of the Shares quoted on the Stock Exchange was HK$0.71 per Share on 19 February 2016 and 22 February 2016.

**Value of the Offers**

As at the Latest Practicable Date, there are 1,026,263,729 Shares in issue and 102,626,000 Options outstanding entitling the Optionholders to subscribe for the Shares pursuant to the Share Option Scheme.

On the basis of the Offer Price of HK$1.20 per Offer Share and 567,330,188 Shares subject to the Share Offer (excluding 458,933,541 Shares held by the Concert Group and assuming that no Options are exercised before the close of the Offers), the Share Offer is valued at approximately HK$680.8 million. On the basis of the Option Offer Price of HK$0.01 each and 90,766,000 Options subject to the Option Offer (excluding 11,860,000 Options held by the Concert Group, and assuming that no Options are exercised before the Closing Date), the total amount required to satisfy the cancellation of the Options is HK$907,660. Based on the aforesaid and assuming that no Options are exercised before the close of the Offers, the Offers are valued at approximately HK$681.7 million in aggregate.

In the event all the Options are exercised in full by the Optionholders before the Closing Date, the Company will have to issue 102,626,000 new Shares, representing approximately 10.0% of the issued share capital of the Company as at the Latest Practicable Date. Assuming the Share Offer is accepted in full (including all Shares allotted and issued as a result of the exercise of the Options), and on the basis of the Offer Price of HK$1.20 per Share and 658,096,188 Shares subject to the Share Offer (excluding 470,793,541 Shares held by the Concert Group), the maximum value of the Share Offer will be increased to approximately HK$789.7 million. In this case, no amount will be payable by the Offeror under the Option Offer, and the Offers are valued at approximately HK$789.7 million in aggregate on a fully-diluted basis.

In the event there is no Option outstanding at the time the Offeror makes the Share Offer, only the Share Offer will be made by the Offeror and there will not be any Option Offer.

**Confirmation of Financial Resources**

As discussed in the paragraph headed "The Option Offer" above, exercise of the Options is subject to, among other things, the Conversion Conditions and respective exercise periods of the Options. Given that the first and second exercise period commenced on 25 July 2015 and 25 July 2016 respectively, and subject to the fulfilment of the Conversion Conditions, only up to approximately two-third of the Options, being 68,979,000 Options (the "**Vested Options**") (in which 2,067,000 Vested Options, 2,920,000 Vested Options and 2,920,000 Vested Options are held by Mr. Xuan, Mr. Huang and Mr. Kuang respectively), are expected to be possibly exercisable before the close of the Offers. In other words, it is expected that the remaining one-third of the Options will not become exercisable as the Offers, as currently scheduled, are expected to close before 25 July 2017.

Assuming full exercise of the Vested Options before the close of the Offers and full acceptance of the Share Offer, the maximum cash consideration payable under the Offers by the Offeror is approximately HK$754,082,626.

The funds required by the Offeror to satisfy the consideration for the Offers will be financed by a loan facility granted by AACL to the Offeror pursuant to the Facility Agreement.

The Offeror does not intend that the payment of interest on, repayment of, or security for any liability (contingent or otherwise) relating to, the Facility Agreement will depend to any significant extent on the business of the Company.

Somerley, the financial adviser to the Offeror in respect of the Offers, is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy full acceptances of the Offers.

**Acceptance of the Offers**

Subject to the satisfaction of the acceptance condition of the Share Offer, the Offers will be made on the basis that acceptance of the Share Offer and/or the Option Offer by any person will constitute a warranty by such person or persons to the Offeror that all the Shares and/or Options to be acquired under the Share Offer and/or Option Offer respectively shall be free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date of this Composite Document or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, the record date of which is on or after the date on which the Share Offer is made.

**The Independent Shareholders, the Independent Optionholders and/or potential investors are reminded to read the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders and the Independent Optionholders in respect of the Share Offer and the Option Offer respectively and the letter from Optima Capital containing its advice to the Independent Board Committee in respect of the Offers which are set out in this Composite Document.**

**Settlement of consideration**

Subject to the Offers having become unconditional, settlement of the consideration in respect of acceptances of the Offers will be made as soon as possible but in any event within seven (7) business days (as defined in the Takeovers Code) of (i) the date of receipt of a complete and valid acceptance in respect of the Offers, or (ii) the date on which the Offers become unconditional, whichever is later.

**Taxation advice**

Independent Shareholders and the Independent Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. None of the Concert Group, the Company, Somerley and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offers accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

**Overseas Shareholders and Overseas Optionholders**

The Offeror intends to make the Share Offer and Option Offer available to all Independent Shareholders and Independent Optionholders respectively including those who are not resident in Hong Kong. The availability of the Offers to persons who are not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws or regulations of the relevant jurisdictions. Such Independent Shareholders and Independent Optionholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. Persons who are not resident in Hong Kong should seek professional advice (legal, financial or otherwise) in order to inform themselves about and observe, in its own responsibility, any applicable requirements and restrictions in their own jurisdictions, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with any other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

**Hong Kong stamp duty**

Seller's ad valorem stamp duty at a rate of 0.1% of the market value of the Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is higher, will be deducted from the amount payable to the relevant Shareholder on acceptance of the Share Offer. The Offeror will arrange for payment of the stamp duty on behalf of accepting Independent Shareholders in connection with the acceptance of the Share Offer and the transfer of the Shares. No stamp duty is payable in connection with the cancellation of the Options.

**Extension of the Offer Period**

The Offeror will issue an announcement in relation to the revision, extension, expiry or unconditionality of the Offers in accordance with the Takeovers Code and the Listing Rules by 7:00 p.m. on the Closing Date.

**INFORMATION ON THE OFFEROR**

The Offeror was incorporated in the BVI with limited liability. The Offeror is the beneficial owner of 457,933,541 Shares as at the Latest Practicable Date. As at the Latest Practicable Date, the Offeror is, through Brightex, indirectly wholly-owned by Mr. Xuan.

**Information on Mr. Xuan**

Mr. Xuan Rui Guo (宣瑞國), aged 47, is the Group's founder, executive Director and Chairman of the Company. Mr. Xuan graduated from Renmin University of China (中國人民大學) with a bachelor's degree in international politics. He is an incumbent director of Yabuli Entrepreneur Association and Deputy Chairman of China Instrument and Control Society. Mr. Xuan is also one of the winners of Ernst & Young Entrepreneur of The Year 2009 China. Mr. Xuan is also a director and deputy chairman of Guangdong Kaiping Chunhui Co., Ltd. (廣東開平春暉股份有限公司), which is a company listed on the Shenzhen Stock Exchange (Stock Code: 000976). He has extensive experience in management, administration and business development in different industries including industrial automation, biotechnology, telecommunication and trading in the PRC. He previously served as General Manager of Boda Telecommunication and Electronics Company Ltd. in Yunnan, China, Manager of Beijing Invention Biology Company Ltd. and General Manager of Beijing Consen Automation Control Co., Ltd., etc.

**IRREVOCABLE UNDERTAKING**

On 6 July 2016, Pengana, the investment manager for the IU Shareholders, delivered to the Offeror the Irrevocable Undertaking.

The Irrevocable Undertaking was given in respect of the IU Shares, representing approximately 5.28% of the issued share capital of the Company as at the Latest Practicable Date.

**Key Terms of the Irrevocable Undertaking**

Pursuant to the Irrevocable Undertaking, Pengana irrevocably and unconditionally undertakes to the Offeror that, among other things, the IU Shareholders:

(a) will remain as the registered (if applicable) and beneficial owner of the IU Shares free and clear from all liens, mortgage, charges, encumbrances, option, restriction, right of first refusal, right of pre-emption and third party rights, interests or claims of any nature whatsoever ("**Encumbrances**") till it tenders their acceptance of the Share Offer in respect of the IU Shares;

(b) will upon request, as soon as possible and in any event before 4:00 p.m. (Hong Kong time) on the business day after the despatch of the Composite Document, tender their acceptance of the Share Offer in respect of the IU Shares in accordance with the terms of the Share Offer and their obligations under the Irrevocable Undertaking, by lodging the duly completed and signed Form of Share Offer Acceptance in respect of the IU Shares in accordance with the instructions printed thereon with the Company's branch share registrar in Hong Kong, and in doing so, sell as the registered and beneficial owner of the IU Shares, free and clear from any Encumbrance and together with all rights of any nature attaching thereto and shall surrender the relevant share certificate(s) at the time of such acceptance by forwarding them to the Offeror or deliver or cause to be delivered to the Offeror irrevocable instructions to deliver the IU Shares to the Offeror or on its behalf through CCASS in accordance with the terms and conditions set out in this Composite Document;

(c) will not withdraw any acceptance of the Share Offer in respect of the IU Shares notwithstanding any withdrawal rights that may be afforded to Shareholders under the Takeovers Code or in the terms and conditions of the Share Offer; and

(d) are permitted to acquire any additional interest in Shares, securities or other interests in the Company, and such Shares, securities or interests shall not be deemed to be the IU Shares for the purpose of the Irrevocable Undertaking and shall not be covered by the Irrevocable Undertaking.

**THE CONSORTIUM AGREEMENT AND THE FACILITY AGREEMENT**

On 23 June 2016 (after trading hours), AACL, the Offeror and Brightex (each a party to the Consortium Agreement and investor/potential investor in the Company) entered into the Consortium Agreement. On 23 June 2016 (after trading hours), AACL (as financier) and the Offeror (as borrower) entered into the Facility Agreement.

AACL is an exempted company incorporated with limited liability in the Cayman Islands on 1 April 2016, which is a direct wholly-owned subsidiary of ACP. The general partner of ACP is Ascendent Capital Partners II GP, L.P and its general partner is Ascendent Capital Partners II GP Limited. ACP is advised by Ascendent Capital Partners (Asia) Limited and ultimately controlled by Ascendent Capital Partners II GP Limited. Ascendent Capital Partners (Asia) Limited is a private equity investment management firm focused on Greater China-related investment opportunities, managing capital for globally renowned institutional investors including sovereign wealth funds, endowments, pensions and foundations.

Pursuant to the Consortium Agreement, AACL, the Offeror and Brightex (each a party to the Consortium Agreement and investor/potential investor in the Company) have agreed after arm's length commercial negotiations, among other things, that:

1) subject to, and conditional upon, the terms of the Facility Agreement, AACL (as financier) agrees to provide financing for up to 100% of the consideration required by the Offeror (as borrower) to pay for the Offer Shares and the Options tendered under the Offers (and the stamp duty, fees and expenses payable in connection with the Offers). Following the Share Offer Closing Date, the Offeror agrees to finance its Proportion (as defined below) of the Offer Shares and Options;

2) following the Determination Date (as defined below), but in any case on or prior to the date that is the later of (a) six (6) months after the Share Offer Closing Date; (b) six (6) months after the last day of the offer period in respect of the Offers; and (c) if the Share Offer becomes unconditional in all respects, three (3) months after the date on which the minimum public float of the Company is restored, if required under Rule 8.08 of the Listing Rules following the Share Offer Closing Date (or such other date that AACL, the Offeror and Brightex may agree in writing, the "**Final Exchange Date**") and subject to the terms of the Facility Agreement, AACL shall have the right (the "**Exchange Right**") to require the Offeror to transfer the Shares (the "**Exchange Shares**") at the Offer Price to it to discharge some or all of the amount then owing by the Offeror to AACL pursuant to the Facility Agreement and/or to purchase some or all of the Shares at the Offer Price then held by the Offeror in order to

achieve the following allocation of the Shares between the Offeror and AACL (the "**Proportion**"). The Exchange Right may only be exercised on one occasion (or such other number of occasions as AACL, the Offeror and Brightex may agree in writing) provided that AACL shall be permitted to exercise the Exchange Right on such number of occasions as is required: (1) to satisfy its sell down obligations pursuant to the Consortium Agreement for the purpose of restoring the minimum public float as required under Rule 8.08 of the Listing Rules and as required under the terms of the Consortium Agreement; or (2) to avoid triggering any obligation to make a general offer pursuant to Rule 26 of the Takeovers Code.

| **Shares held by the Offeror/acquired under the Share Offer** | **Acquirer of the Shares and the proportion** |
|---|---|
| (1) For the approximately 23.69% attributable interest in the Company acquired by the Offeror pursuant to the SPA | 143,676,922 Shares, representing approximately 14.00% of the total issued share capital of the Company to go to AACL ("**14% AACL Shares**") provided that if the Offers do not become unconditional, AACL shall have the sole discretion to determine whether or not to take up the 14% AACL Shares[note]<br><br>99,485,788 Shares, representing approximately 9.69% of the total issued share capital of the Company to remain with the Offeror |
| (2) For the first 54,198,324 Offer Shares, representing approximately 5.28% of the issued share capital of the Company to reach the 50% acceptance condition of the Share Offer | 100.00% to AACL |
| (3) For up to the next 256,565,932 Offer Shares, representing approximately 25.00% of the issued share capital of the Company to reach 75% of the total issued share capital of the Company | 80.00% to the Offeror<br><br>20.00% to AACL |
| (4) For up to the next 256,565,932 Offer Shares, representing approximately 25.00% of the issued share capital of the Company to reach 100% of the total issued share capital of the Company | 37.00% to the Offeror<br><br>63.00% to AACL |

*Note:*

In the event the Offers had not become or declared unconditional and AACL elects to take up the 14% AACL Shares, AACL shall pay the Offeror a consideration of HK$172,412,304.75 (equivalent to approximately HK$1.20 per Share) in cash within 15 business days after the Determination Date (as define below) in return for the Exchange Right over the 14% AACL Shares.

The determination of the allocation of Shares which are subject to the exercise of an Exchange Right, will only occur on the date that is five business days after the latest to occur of: (i) the last day of the offer period in respect of the Offers; (ii) the date that all consideration payable by the Offeror under the Share Offer is paid in full; and (iii) completion of compulsory acquisition (if any) (the "**Determination Date**").

If AACL does not exercise the Exchange Right in respect of the full outstanding amount then owing by the Offeror to AACL pursuant to the Facility Agreement on or before the Final Exchange Date, AACL will be deemed to have exercised the Exchange Right for such outstanding amount as at the Final Exchange Date such that no amount will be repayable by the Offeror on the Final Exchange Date. Should the exercise of the Exchange Right triggers an obligation of AACL to make a general offer pursuant to Rule 26 of the Takeovers Code, AACL will comply with the applicable requirements under the Takeovers Code;

3) all decisions relating to the Offers will be made jointly by the Offeror and AACL;

4) in the event that as a result of the Offers, the Company no longer complies with the minimum public float requirement under Rule 8.08 of the Listing Rules, and provided that the Offeror and AACL have decided to maintain the Company's listing status on the Main Board of the Stock Exchange and not to exercise any right of compulsory acquisition (if any), the Offeror and AACL undertake to restore the minimum public float as required under Rule 8.08 of the Listing Rules as soon as practicable, by either:

   i) selling to members of the public a sufficient number of Offer Shares acquired by the Offeror pursuant to the Share Offer to restore the minimum public float as required under Rule 8.08 of the Listing Rules on terms mutually agreed between AACL and the Offeror in the following portion:

      (1) in the case of the Offeror, equal to 37% of the total number of the Shares to be sold down; and

      (2) in the case of AACL, equal to 63% of the total number of the Shares to be sold down, in which case AACL shall exercise its Exchange Right in respect of at least its proportion of the number of the Shares to be sold down; or

   ii) procuring the Company to issue such number of new Shares to members of the public to ensure that it will comply with the minimum public float as required under Rule 8.08 of the Listing Rules;

5) the Offeror may not incur any indebtedness or arrange a refinancing of the loan facility made available by AACL pursuant to the Facility Agreement without the prior written consent of AACL and, in any case, not before the Determination Date. Notwithstanding anything to the contrary in the Consortium Agreement, in the event that such a refinancing is arranged by the Offeror prior to the exercise of the Exchange Right in respect of all the Exchange Shares for up to 100% of the consideration that was used by the Offeror to pay for the tendered Offer Shares and the Options under the Offers (and the stamp duty, fees and expenses payable in connection with the Share Offer and the Option Offer) (the "**Refinancing**"), AACL may instead elect (at its sole discretion) by notice in writing to the Offeror, to exercise all or part of its Exchange Right (depending on the relevant amount of the Refinancing) and take shares in the Offeror or Brightex in lieu of all or part of the Exchange Shares (depending on the relevant amount of the Refinancing) and Brightex and the Offeror each undertakes to take whatever action is necessary or desirable upon the reasonable request of AACL to:

   i. issue, allot or otherwise transfer to AACL such number of Equity Securities in the Offeror or Brightex, to enable AACL, along with any Shares acquired by AACL pursuant to any exercise of part of its Exchange Right (if applicable), to otherwise reflect AACL's attributable interest in Shares as set out in paragraph (2) above, in consideration for and in lieu of AACL exercising its Exchange Right to acquire the Shares;

   ii. not to transfer any Shares that it holds which represent the attributable interest of AACL in the Company for so long as AACL holds Equity Securities in the Offeror or Brightex;

   iii. for so long as AACL holds any Equity Securities in the Offeror or Brightex, ensure that the provisions in the Consortium Agreement relating to the restrictions of transfer of the Shares and the governance of the Company (as if the Company was delisted from the Main Board of the Stock Exchange) shall apply *mutatis mutandis* to the Offeror and Equity Securities of the Offeror or Brightex (as the case may be); and

   iv. to transfer the Shares to AACL reflecting AACL's attributable interest in the Shares as set out in paragraph (2) above, in exchange for the buyback or surrender of any Equity Securities in the Offeror or Brightex held by AACL;

6) the Offeror undertakes to, during the period from the Determination Date and up to the Final Exchange Date, exercise, or procure the exercise of, the voting rights (whether on a show of hands, a poll or otherwise) attaching to the Shares (which are subject to the exercise of an Exchange Right) it owns or controls in accordance with the written instructions of AACL, provided that this undertaking to exercise any voting rights shall only apply to such number of Exchange Shares which will not result in AACL triggering any obligation under Rule 26 of the Takeovers Code to make a general offer;

7) (i) AACL and the Offeror shall each have a reciprocal right of first refusal in respect of any proposed transfer of Shares; (ii) AACL and the Offeror shall each have a reciprocal tag along right to the extent that it or its Affiliates proposes to transfer any Shares to any person other

than to another party to the Consortium Agreement or any of its Affiliates at any time; (iii) AACL shall have a drag along right on the fifth anniversary of the Closing Date (under the circumstances provided in the Consortium Agreement) or when Mr. Xuan ceases to be a Director or senior manager of the Company; and

8) in the event that the Company is delisted from the Main Board of the Stock Exchange, AACL, the Offeror and Brightex have agreed upon certain corporate governance principles to apply to the Company including matters relating to the composition of the Board and that certain matters such as the sale of assets, issuance of any securities or connected transactions will require the prior written consent of AACL.

Pursuant to the Facility Agreement, an unsecured interest-free loan facility of the HK$ equivalent of US$99,000,000 has been granted by AACL to the Offeror. On the Determination Date, a settlement amount as between the Offeror and AACL, taking into account the Offeror's and AACL's respective Proportions, shall be calculated in accordance with the Consortium Agreement. To the extent that an amount remains payable by the Offeror after taking into account AACL's Proportion, the Offeror shall repay that amount to AACL.

For illustrative purposes only, set out below is the shareholding structure of the Company (A) as at the Latest Practicable Date and (B) upon the Closing Date assuming that (i) no Options were exercised; (ii) the Share Offer had become unconditional with different level of acceptances pursuant to the Irrevocable Undertaking and the Consortium Agreement; and (iii) AACL exercised the Exchange Right pursuant to the Consortium Agreement according to the Proportion:–

| | As at the Latest Practicable Date | | Upon the Closing Date and the Offers did not become unconditional and therefore lapsed *(Note 2)* | | Upon the Closing Date and only acceptance of the IU Shares received | | Upon the Closing Date and total acceptances of approximately 30.28% of the total issued share capital of the Company received | | Upon the Closing Date and total acceptances of approximately 55.28% of the total issued share capital of the Company received *(Note 3)* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *no. of Shares* | *approx. %* | *no. of Shares* | *approx. %* | *no. of Shares* | *approx. %* | *no. of Shares* | *approx. %* | *no. of Shares* | *approx. %* |
| Mr. Xuan *(Note 1)* | 1,000,000 | 0.10 | 1,000,000 | 0.10 | 1,000,000 | 0.10 | 1,000,000 | 0.10 | 1,000,000 | 0.10 |
| Offeror *(Note 1)* | 457,933,541 | 44.62 | 314,256,619 | 30.62 | 314,257,959 | 30.62 | 519,509,364 | 50.62 | 614,438,759 | 59.87 |
| Mr. Huang | – | – | – | – | – | – | – | – | – | – |
| Mr. Kuang | – | – | – | – | – | – | – | – | – | – |
| AACL | – | – | 143,676,922 | 14.00 | 197,875,582 | 19.28 | 249,188,433 | 24.28 | 410,824,970 | 40.03 |
| Concert Group | 458,933,541 | 44.72 | 458,933,541 | 44.72 | 513,133,541 | 50.00 | 769,697,797 | 75.00 | 1,026,263,729 | 100.00 |
| Other Shareholders | 567,330,188 | 55.28 | 567,330,188 | 55.28 | 513,130,188 | 50.00 | 256,565,932 | 25.00 | – | – |
| Total | 1,026,263,729 | 100.00 | 1,026,263,729 | 100.00 | 1,026,263,729 | 100.00 | 1,026,263,729 | 100.00 | 1,026,263,729 | 100.00 |

*Notes:*

1. The Offeror is the beneficial owner of 457,933,541 Shares as at the Latest Practicable Date. As at the Latest Practicable Date, the Offeror is, through Brightex, indirectly wholly-owned by Mr. Xuan.

2. Pursuant to the terms of the Consortium Agreement, if the Offers do not become unconditional, AACL has the sole discretion to determine whether or not to take up the Exchange Right over the 14% AACL Shares; AACL does not have such discretion and will take up the Exchange Right over the 14% AACL Shares if the Share Offer becomes unconditional in all respects.

3. Should the exercise of the Exchange Right trigger an obligation of AACL to make a general offer pursuant to Rule 26 of the Takeovers Code, AACL will comply with the applicable requirements under the Takeovers Code.

## INTENTION OF THE OFFEROR IN RELATION TO THE GROUP

Following completion of the Offers, the Offeror intends to undertake a detailed strategic review of the Group for the purpose of formulating business plans and strategies for the future business development of the Group and determining what changes, if any, would be appropriate or desirable in order to optimise the business activities of the Group. It is the intention of the Offeror to continue with the existing principal businesses of the Group in the manner in which they are presently conducted. The Offeror does not intend to introduce any major changes to the existing operation and business of the Company immediately after the Offers. As at the Latest Practicable Date, the Offeror has no intention to dispose of assets and/or business of the Group, other than in the ordinary and usual course of its business, nor any plan to terminate the employment of any employees or other personnel of the Group.

To the extent AACL acquires Shares following the exercise of its Exchange Right following the Determination Date and before the Final Exchange Date, it will be a financial investor in the Company, assist and provide advice to the Offeror in undertaking a detailed strategic review on the Group and possibly cooperate with the Offeror and the Company in the future business development of the Group.

### Proposed change in Board composition

As at the date of Latest Practicable Date, the Board comprises Mr. Xuan, Mr. Huang and Mr. Kuang as executive Directors; and Mr. Wang Tai Wen, Mr. Sui Yong Bin and Mr. Ng Wing Fai as independent non-executive Directors.

#### *Resignation of Directors(s)*

Pursuant to the SPA, Mr. Huang and Mr. Kuang shall resign as Directors with effect from the earliest time permitted under (or pursuant to any dispensation from) the Takeovers Code or by the Executive.

Pursuant to the SPA, Mr. Huang and Mr. Kuang resigned as the directors of certain subsidiaries of the Company on Completion.

*Appointment of new Director(s)*

The Offeror intends to nominate new Director(s) to the Board with effect from the date as the Offeror thinks fit and in any event, after the date of this Composite Document.

Further announcement(s) will be made in accordance with the Listing Rules regarding the appointment of the new Director(s).

Save for the proposed change in Board composition as disclosed above, the Offeror has no intention to introduce any significant changes to the management of the Group, or to discontinue the employment of the employees of the Group, following completion of the Offers.

## COMPULSORY ACQUISITION

If the Offeror receives valid acceptances of the Share Offer for not less than 90% in value of the Shares for which the Share Offer is made within four months of the posting of this Composite Document, the Offeror will consider to exercise the right under section 88 of the Cayman Islands Companies Law to compulsorily acquire those Shares not acquired by the Offeror under the Share Offer. On completion of the compulsory acquisition, if exercised, the Offeror will hold in 100% interest in the Company and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise the Company by means of the Share Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Cayman Islands Companies Law, acceptance of the Share Offer and purchases made by the Concert Group during the four months after posting of this Composite Document total 90% or more of the disinterested Shares (as defined in the Takeovers Code).

## PUBLIC FLOAT OF THE COMPANY

If the Offeror receives acceptances of the Share Offer for less than 90% of the Shares for which the Share Offer is made and the public float of the Company falls below 25% after the close of the Share Offer, the Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

(a) a false market exists or may exist in the trading of the Shares; or

(b) that there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

The director of the Offeror, the Directors and any new Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange that they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible following the close of the Offers to ensure that sufficient public float exists in the Shares.

**GENERAL**

This Composite Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules. The information disclosed in it may not be the same as that which would have been disclosed if this Composite Document had been prepared in accordance with the laws or applicable rules of jurisdictions outside Hong Kong.

To ensure equality of treatment of all Shareholders, those Shareholders and Optionholders who hold Shares or Options as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owners separately. It is essential for the beneficial owners of the Shares and Options whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offers.

The attention of Overseas Shareholders and Overseas Optionholders is drawn to the paragraph headed "Overseas Shareholders and Overseas Optionholders" in Appendix I to this Composite Document.

All documents and remittances to be sent to Shareholders and Optionholders will be sent to them by ordinary post at their own risk at their respective addresses as they appear in the register of the members of the Company or the register of Optionholders or, in the case of joint holdings, to such Shareholder or Optionholder whose name appears first in the register of members of the Company or register of Optionholders. The Offeror and parties acting in concert with it, the Company, Somerley, Optima Capital, the Registrar, their professional advisers and their respective directors or any other parties involved in the Offers will not be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof or in connection therewith.

**ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the appendices to this Composite Document, which form part of this Composite Document. You should carefully read the "Letter from the Board", the "Letter from the Independent Board Committee", the "Letter from Optima Capital" and other information about the Group, which are set out in this Composite Document, before deciding whether or not to accept the Offers.

Yours faithfully,
for and on behalf of
**Somerley Capital Limited**
**M. N. Sabine**
*Chairman*

中國自動化集團有限公司
China Automation Group Limited
(HK stock code 0569)
*(Incorporated in the Cayman Islands with limited liability)*

*Executive Directors:*
Mr. Xuan Rui Guo *(Chairman)*
Mr. Kuang Jian Ping *(Chief Executive Officer)*
Mr. Huang Zhi Yong

*Independent non-executive Directors:*
Mr. Ng Wing Fai
Mr. Sui Yong Bin
Mr. Wang Tai Wen

*Registered office:*
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal place of business in Hong Kong:*
Unit 3205B-3206, 32nd Floor,
Office Tower, Convention Plaza,
1 Harbour Road,
Wanchai, Hong Kong.

5 August 2016

*To the Independent Shareholders and the Independent Optionholders*

Dear Sir or Madam,

**CONDITIONAL MANDATORY CASH OFFERS BY SOMERLEY CAPITAL LIMITED ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING OPTIONS OF CHINA AUTOMATION GROUP LIMITED (OTHER THAN THOSE ALREADY OWNED BY THE CONCERT GROUP)**

## INTRODUCTION

The Company and the Offeror jointly announced on 24 June 2016 that, among other things, on 23 June 2016 (after trading hours), Mr. Xuan and the Offeror (which is indirectly wholly-owned by Mr. Xuan through Brightex) entered into the SPA with Consen Group, Mr. Huang, Mr. Kuang and Mr. Yang pursuant to which the Offeror agreed to acquire 457,933,541 Shares from Consen Group, representing approximately 44.62% equity interest in the Company as at the date of the SPA for an aggregate consideration of HK$549,520,249.20. Completion took place on 24 June 2016.

Immediately upon Completion, Mr. Xuan and the Offeror, which is indirectly wholly-owned by Mr. Xuan, have become interested in 458,933,541 Shares, representing approximately 44.72% voting rights in the Company as at the Latest Practicable Date. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, Mr. Xuan, through the Offeror, is required to make a conditional mandatory cash offer for 567,330,188 Shares, representing all the issued Shares which are not already owned by the Concert Group, and to cancel all outstanding Options (other than those held by the Concert Group). Details of the Offers are set out in the "Letter from Somerley" and Appendix I to this Composite Document and Form(s) of Acceptance.

The purpose of this Composite Document of which this letter forms part is to provide you with, among other matters, the terms of the Offers, information relating to the Group and the Offeror as well as to set out (i) the letter from the Independent Board Committee containing its recommendations to the Independent Shareholders and the Independent Optionholders in relation to the Offers; and (ii) a letter from Optima Capital containing its advice and recommendations to the Independent Board Committee in respect of the Offers.

**THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee comprising two independent non-executive Directors, namely Mr. Wang Tai Wen and Mr. Ng Wing Fai, has been established by the Company to make a recommendation to the Independent Shareholders and Independent Optionholders as to whether the Offers are fair and reasonable and as to the acceptance of the Offers. The remaining independent non-executive Director, namely Mr. Sui Yong Bin, has been excluded from serving on the Independent Board Committee with the Executive's consent due to his medical condition.

Optima Capital has been appointed as the independent financial adviser to advise the Independent Board Committee on the terms of the Offers and as to acceptance.

**THE OFFERS**

**Principal terms of the Offers**

As set out in the "Letter from Somerley" contained in this Composite Document, Somerley is making the Offers on behalf of the Offeror in compliance with the Takeovers Code on the following bases:

The Share Offer

**For each Offer Share** . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . **HK$1.20 in cash**

The Option Offer

**For cancellation of each Option** . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . **HK$0.01 in cash**

Under the Option Offer, since the exercise price of the outstanding Options of HK$1.60 per Share is above the Offer Price of HK$1.20 per Offer Share under the Share Offer, the Option Offer Price for the cancellation of each outstanding Option is set at a nominal value of HK$0.01.

Further details of the Offers, including, among other things, the terms and conditions and the procedures for acceptance and settlement are set out in the "Letter from Somerley" in this Composite Document, Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

## INFORMATION ON THE GROUP

The Company is incorporated in the Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The Group is engaged in the provision of safety and critical control system specialised for petrochemical and railway industries, along with related maintenance and engineering services.

Your attention is drawn to the Appendices II and IV of this Composite Document which contain further financial and general information of the Group.

## SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) for illustrative purposes only, assuming all Vested Options were exercised; and (iii) for illustrative purposes only, assuming all the outstanding Options were exercised:–

| | **As at the Latest Practicable Date** | | **For illustrative purposes only**<br>**Assuming all Vested Options were exercised** *(Note 2)* | | **For illustrative purposes only**<br>**Assuming all the outstanding Options were exercised** *(Note 3)* | |
|---|---|---|---|---|---|---|
| | *no. of Shares* | *approx. %* | *no. of Shares* | *approx. %* | *no. of Shares* | *approx. %* |
| Mr. Xuan *(Note 1)* | 1,000,000 | 0.10% | 3,067,000 | 0.28% | 4,100,000 | 0.36% |
| Offeror *(Note 1)* | 457,933,541 | 44.62% | 457,933,541 | 41.81% | 457,933,541 | 40.56% |
| Mr. Huang | – | – | 2,920,000 | 0.27% | 4,380,000 | 0.39% |
| Mr. Kuang | – | – | 2,920,000 | 0.27% | 4,380,000 | 0.39% |
| AACL | – | – | – | – | – | – |
| Concert Group | 458,933,541 | 44.72% | 466,840,541 | 42.63% | 470,793,541 | 41.70% |
| Other Directors | – | – | 268,000 | 0.02% | 400,000 | 0.04% |
| *Public Shareholders* | | | | | | |
| Employees of the Group | – | – | 60,804,000 | 5.55% | 90,366,000 | 8.00% |
| Other public Shareholders | 567,330,188 | 55.28% | 567,330,188 | 51.80% | 567,330,188 | 50.26% |
| Total | 1,026,263,729 | 100.00% | 1,095,242,729 | 100.00% | 1,128,889,729 | 100.00% |

*Notes:*

1. The Offeror was the beneficial owner of 457,933,541 Shares as at the Latest Practicable Date. As at the Latest Practicable Date, the Offeror was, through Brightex, indirectly wholly-owned by Mr. Xuan.

2. Following 25 July 2016, being the second exercise period commencing date of the Options, the Company would have 68,979,000 Vested Options, among which (i) 2,067,000 Vested Options, 2,920,000 Vested Options and 2,920,000 Vested Options were granted to Mr. Xuan, Mr. Huang and Mr. Kuang respectively; (ii) 268,000 Vested Options were granted to other Directors, and (iii) the remaining 60,804,000 Vested Options were granted to employees of the Group. Conversion of the Options is subject to the Conversion Conditions and therefore, this scenario is shown for illustrative purposes only.

3. As at the Latest Practicable Date, the Company had 102,626,000 outstanding Options, among which (i) 3,100,000 Options, 4,380,000 Options and 4,380,000 Options were granted to Mr. Xuan, Mr. Huang and Mr. Kuang respectively; (ii) 400,000 Options were granted to other Directors, and (iii) the remaining 90,366,000 Options were granted to employees of the Group. Conversion of the Options is subject to the Conversion Conditions and therefore, this scenario is shown for illustrative purposes only.

## INFORMATION ON AND INTENTION OF THE OFFEROR

Your attention is drawn to the sections headed "Information on the Offeror" and "Intention of the Offeror in relation to the Group" in the "Letter from Somerley" set out in this Composite Document.

The Board notes that it is the intention of the Offeror to continue with the existing principal businesses of the Group in the manner in which it is presently conducted and the Offeror does not intend to introduce any major changes to the existing operation and business of the Company immediately after the Offers. The Board also notes the intention of the Offeror in respect of the Group as disclosed in the "Letter from Somerley" in this Composite Document.

## COMPULSORY ACQUISITION

According to the "Letter from Somerley" in this Composite Document, if the Offeror receives valid acceptances of the Share Offer for not less than 90% in value of the Shares for which the Share Offer is made within four months of the posting of this Composite Document, the Offeror will consider to exercise the right under section 88 of the Cayman Islands Companies Law to compulsorily acquire those Shares not acquired by the Offeror under the Share Offer. On completion of the compulsory acquisition, if exercised, the Offeror will be interested in 100% interest in the Company and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise the Company by means of the Share Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Cayman Islands Companies Law, acceptance of the Share Offer and purchases made by the Concert Group during the four months after posting of this Composite Document total 90% or more of the disinterested Shares (as defined in the Takeovers Code).

## PUBLIC FLOAT OF THE COMPANY

If the Offeror receives acceptances of the Share Offer for less than 90% of the Shares for which the Share Offer is made and the public float of the Company falls below 25% after the close of the Share Offer, the Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public at all times, or if the Stock Exchange believes that:

(a) a false market exists or may exist in the trading of the Shares; or

(b) that there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

The director of the Offeror, the Directors and any new Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange that they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible following the close of the Offers to ensure that sufficient public float exists in the Shares.

## RECOMMENDATIONS

Your attention is drawn to the "Letter from the Independent Board Committee" as set out on pages IBC-1 to IBC-2 of this Composite Document which contains its recommendation to the Independent Shareholders and the Independent Optionholders in respect of the Offers, and the "Letter from Optima Capital" as set out on pages IFA-1 to IFA-29 of this Composite Document containing its advice to the Independent Board Committee in respect of the Offers.

## ADDITIONAL INFORMATION

You are also advised to read this Composite Document together with the accompanying Form(s) of Acceptance in respect of the acceptance and settlement procedures of the Offers. Your attention is also drawn to the additional information contained in the appendices to this Composite Document.

In considering what action to take in connect with the Offers, you should also consider your own tax position, if any, and in case of doubt, consult your professional adviser.

By order of the board of
**China Automation Group Limited**
**Huang Zhi Yong**
*Executive Director*

*Set out below is the text of the letter of recommendation from the Independent Board Committee in respect of the Offers which has been prepared for the purpose of inclusion in this Composite Document.*

中國自動化集團有限公司
China Automation Group Limited
(HK stock code 0569)
*(Incorporated in the Cayman Islands with limited liability)*

5 August 2016

*To the Independent Shareholders and Independent Optionholders*

Dear Sir or Madam,

**CONDITIONAL MANDATORY CASH OFFERS BY SOMERLEY CAPITAL LIMITED ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING OPTIONS OF CHINA AUTOMATION GROUP LIMITED (OTHER THAN THOSE ALREADY OWNED BY THE CONCERT GROUP)**

## INTRODUCTION

We refer to the Composite Document dated 5 August 2016 jointly issued by the Offeror and the Company of which this letter forms part. Capitalised terms used in this letter shall have the same meaning as defined in the Composite Document unless the context requires otherwise.

We have been appointed as members of the Independent Board Committee to consider the Offers and to make recommendations to you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the Independent Optionholders are concerned and as to acceptances of the Offers. Optima Capital has been appointed as the independent financial adviser to advise us in this respect. Details of its advice, together with the principal factors taken into consideration in arriving at its advice are set out in the "Letter from Optima Capital" in the Composite Document.

We also wish to draw your attention to the "Letter from Somerley", the "Letter from the Board" and the additional information set out in the Composite Document, including the appendices to the Composite Document and the accompanying Forms of Acceptance in respect of the terms of the Offers and the acceptance and settlement procedures for the Offers.

Having taken into account the advice from Optima Capital, in particular the factors, reasons and advice as set out in its letter in the Composite Document, we consider that the terms of the Offers are fair and reasonable so far as the Independent Shareholders and Independent Optionholders are concerned. Accordingly, we recommend the Independent Shareholders and Independent Optionholders to accept the Offers.

The Independent Shareholders and the Independent Optionholders are recommended to read the full text of the "Letter from Optima Capital" as set out in the Composite Document. Notwithstanding our recommendations, the Independent Shareholders and the Independent Optionholders are strongly advised that their decisions to realise or to hold their investment in the Shares and Options are subject to individual circumstances and investment objectives. If in any doubt, the Independent Shareholders and the Independent Optionholders should consult their own professional advisers for professional advice.

Yours faithfully,
The Independent Board Committee
**China Automation Group Limited**

**Mr. Wang Tai Wen**
*Independent Non-executive Director*

**Mr. Ng Wing Fai**
*Independent Non-executive Director*

*The following is the letter of advice from Optima Capital to the Independent Board Committee which has been prepared for the purpose of inclusion in the Composite Document.*

Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

5 August 2016

*To: the Independent Board Committee of China Automation Group Limited*

Dear Sirs,

**CONDITIONAL MANDATORY CASH OFFERS BY SOMERLEY CAPITAL LIMITED ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND TO CANCEL ALL OUTSTANDING OPTIONS OF CHINA AUTOMATION GROUP LIMITED (OTHER THAN THOSE ALREADY OWNED BY THE CONCERT GROUP)**

## INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Offers. Details of the Offers are set out in the Composite Document jointly issued by the Offeror and the Company dated 5 August 2016, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless otherwise specified herein. For illustration purposes, sums in HK$, RMB or US$ in this letter have been translated at the rates of RMB1.0 = HK$1.20 and US$1.0 = RMB6.215. These conversion rates should not be taken as a representation that any amounts in HK$, RMB or US$ could be converted based on such rates or at all.

The Board comprises three executive Directors and three independent non-executive Directors. Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising two independent non-executive Directors, namely Mr. Wang Tai Wen and Mr. Ng Wing Fai, has been established for the purpose of making a recommendation to the Independent Shareholders and the Independent Optionholders as to whether the Share Offer and the Option Offer are fair and reasonable and as to acceptance of the Offers. Mr. Sui Yong Bin, the remaining independent non-executive Director, has been excluded from serving on the Independent Board Committee with the Executive's consent due to his medical condition. The Independent Board Committee has approved our appointment as the independent financial adviser to the Independent Board Committee in connection with the Offers. In our capacity as the independent financial adviser to the Independent Board Committee, our role is to provide the Independent Board Committee with independent advices as to whether the Offers are fair and reasonable and as to acceptance of the Offers.

We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date. We have also sought and received confirmation from the executive Directors and management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Offeror or the associates of any of them, nor have we carried out any independent verification of the information supplied. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to herein and our opinion after the Latest Practicable Date and throughout the Offer Period.

In relation to the Offers, we have not considered the tax implications on the Independent Shareholders and the Independent Optionholders of the acceptance or non-acceptance of the Offers since these depend on their individual circumstances. In particular, the Independent Shareholders and the Independent Optionholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

**PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our advice with regard to the Offers, we have taken into account the following principal factors and reasons:

**1. Background leading to and the terms of the Offers**

On 23 June 2016, Mr. Xuan and the Offeror (which is indirectly wholly owned by Mr. Xuan through Brightex) entered into the SPA with Consen Group, Mr. Huang, Mr. Kuang and Mr. Yang pursuant to which the Offeror agreed to acquire 457,933,541 Shares from Consen Group, representing an approximately 44.62% equity interest in the Company as at the date of the SPA and the Latest Practicable Date, for an aggregate consideration of HK$549,520,249.20.

As a result of Completion which took place on 24 June 2016, Mr. Xuan and the Offeror have become interested in 458,933,541 Shares, representing an approximately 44.72% voting rights in the Company as at the Latest Practicable Date. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, Mr. Xuan, through the Offeror, is required to make conditional mandatory cash offers for all the issued Shares which are not already owned by the Concert Group, and to cancel all outstanding Options other than those held by the Concert Group.

### *1.1 The Share Offer*

The Share Offer is being made by Somerley on behalf of the Offeror on the following basis:

For each Offer Share . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . HK$1.20 in cash

The Offer Price is equal to the price per Share paid by the Offeror to Consen Group, Mr. Huang, Mr. Kuang and Mr. Yang under the SPA. The Offer Shares shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date of the Composite Document or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, the record date of which is on or after the date of the Composite Document.

The Share Offer is conditional on valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares already owned by the Concert Group and acquired or agreed to be acquired before or during the Share Offer, will result in the Concert Group holding more than 50% of the voting rights of the Company.

On 6 July 2016, Pengana, the investment manager for the IU Shareholders, delivered to the Offeror the Irrevocable Undertaking pursuant to which, among other things, the IU Shareholders undertake to tender the IU Shares (representing 5.28% of the issued share capital of the Company as at the Latest Practicable Date) for acceptance of the Share Offer. Taking into account the Irrevocable Undertaking, the Share Offer shall become unconditional upon receipt of the acceptance in respect of the IU Shares.

### *1.2 The Option Offer*

The Option Offer is being made by Somerley on behalf of the Offeror in accordance with Rule 13 of the Takeovers Code for the cancellation of all outstanding Options (excluding 11,860,000 Options held by the Concert Group) on the following basis:

For cancellation of each Option . . . . . . . . . . . . . . . . . . . . . . . . . . . . . HK$0.01 in cash

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching to the Options will be entirely cancelled and renounced.

As at the Latest Practicable Date, the Company had outstanding Options in respect of 102,626,000 Shares granted under the Share Option Scheme. As stated in the annual report of the Company for the year ended 31 December 2015, the Options have a validity period from 25 July 2014 to 24 July 2018 and have been and will be exercisable in the following manner: (i) up to approximately one third of the Options became exercisable on 25 July 2015; (ii) up to approximately one third of the Options became exercisable on 25 July 2016; (iii) up to approximately one third of the Options will become exercisable commencing on 25 July 2017, provided that relevant performance targets are achieved and the closing price of the Shares on the trading day immediately preceding the date of exercise is HK$2.40 or above. The exercise price of the Options is HK$1.60 per Share. As, among other things, the closing price per Share of HK$1.19 as quoted on the Stock Exchange on the Latest Practicable Date was below HK$2.40, no Options are exercisable as at the Latest Practicable Date.

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional, the Optionholders may exercise the Options within 21 days of the notice of the Offeror that the Share Offer is declared unconditional (to the extent that the Options have become exercisable and not already exercised) to its full extent or to the extent specified in such notice. The Options not exercised at the expiry of such 21-day period shall lapse and the Options which have not become exercisable prior to the date of the aforesaid notice of the Offeror will not become exercisable as a result of the Share Offer becoming unconditional.

Save as aforesaid, the Company has no other outstanding shares, options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) that carry a right to subscribe for or which are convertible into Shares.

### *1.3 Other terms of the Offers*

The Offer Price shall be payable in cash. The Offeror reserves the right to revise the terms of the Offers in accordance with the Takeovers Code. Further terms and conditions of the Offers, including the procedures for acceptance, are set out in the letter from Somerley contained in the Composite Document and in Appendix I to the Composite Document and the accompanying Forms of Acceptance.

## 2. Information of the Group

### *2.1 Principal activities*

The Group is an integrated solution provider of safety and critical control systems specialised in the petrochemical and coal chemical industry. It is also a manufacturer of control valves, and one of the qualified suppliers of traction and auxiliary power supply systems in the railway industry in the PRC. Besides, it provides engineering and maintenance services related to control systems, and engages in the distribution of equipment.

Set out below is the revenue breakdown of the Group by business segment for each of the three financial years ended 31 December 2013, 2014 and 2015 and for the six-month periods ended 30 June 2015 and 2016:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | |
| | *(RMB'm)* | % | *(RMB'm)* | % | *(RMB'm)* | % |
| | *(audited)* | | *(audited and re-presented)* | | *(audited)* | |
| System sales and engineering design service | | | | | | |
| – Petrochemical | | | | | | |
| – safety system | 892.3 | 38.7 | 769.4 | 40.1 | 548.1 | 33.4 |
| – control valve | 583.0 | 25.3 | 671.7 | 35.0 | 700.6 | 42.7 |
| – Railway | | | | | | |
| – signaling system | 349.4 | 15.1 | – | – | – | – |
| – traction system | 129.9 | 5.6 | 212.3 | 11.1 | 183.1 | 11.1 |
| Subtotal | 1,954.6 | 84.7 | 1,653.4 | 86.2 | 1,431.8 | 87.2 |
| Provision of engineering and maintenance services | 168.5 | 7.3 | 185.2 | 9.7 | 183.5 | 11.2 |
| Distribution of equipment | 185.7 | 8.0 | 79.9 | 4.1 | 25.7 | 1.6 |
| Total | 2,308.8 | 100.0 | 1,918.5 | 100.0 | 1,641.0 | 100.0 |

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | 2015 | | 2016 | |
| | *(RMB'm)* *(unaudited)* | *%* | *(RMB'm)* *(unaudited)* | *%* |
| System sales and engineering design service | | | | |
| - Petrochemical | | | | |
| - safety system | 330.2 | 43.0 | 115.4 | 29.8 |
| - control valve | 291.1 | 37.9 | 177.2 | 45.7 |
| - Railway | | | | |
| - traction system and others | 76.6 | 9.9 | 45.8 | 11.9 |
| Subtotal | 697.9 | 90.8 | 338.4 | 87.4 |
| Provision of engineering and maintenance services | 65.5 | 8.5 | 39.9 | 10.3 |
| Distribution of equipment | 5.2 | 0.7 | 9.1 | 2.3 |
| Total | 768.6 | 100.0 | 387.4 | 100.0 |

***System sales and engineering design for petrochemical industry***

The Group has been engaging in the provision of safety and critical control systems in the petrochemical industry since 1999. It has maintained a leading position in this market in the PRC and its major customers include renowned petrochemical and coal chemical companies such as China Petrochemical Corporation, China National Petroleum Corporation, China Shenhua Energy Company Limited and China National Coal Group Corporation. The Group's safety and critical control systems are used to minimise industrial safety risk and to protect, monitor and control critical production equipment of the petrochemical companies. For the year ended 31 December 2015, the Group successfully completed and delivered approximately 421 sets of systems, bringing the cumulative delivered system count to approximately 3,722 sets since 1999.

The Group also develops and manufactures control valves for use in different sectors such as valves for oil and gas pipelines, high-temperature and high-pressure differential valves for the nuclear power industry and deep water valves for ocean drilling platforms.

For each of the financial years ended 31 December 2013, 2014 and 2015, system sales and engineering design services provided to petrochemical companies were the main revenue contributor of the Group, accounting for approximately 64.0%, 75.1% and 76.1% of the total revenue for the respective year.

***System sales and engineering design for railway industry***

The Group is one of the five qualified suppliers of electrified equipment recognised by China Railway Corporation ("**CRC**", formerly The Ministry of Railways) and one of the qualified suppliers for the metro localisation electrified equipment market in the PRC. It has completed the delivery of traction systems for Nanjing Subway Line Number 1 and partially delivered the traction systems for Guangzhou Subway Line Number 9 in 2015. It will continue to develop localised proprietary traction systems for urban rail transit.

In May 2015, the Group disposed of its 76.7% equity interest in Beijing Jiaoda Microunion Technology Company Limited ("**Beijing Jiaoda Microunion**"). Since then, the Group ceased to be engaged in the sale of signaling system for railway industry and the results of Beijing Jiaoda Microunion had been presented as discontinued operations in the financial statements of the Group in 2015.

***Provision of engineering and maintenance services***

The Group provides engineering and maintenance services to customers for both its own products and the products supplied by other corporations, including first-tier multi-national corporations. These maintenance services include field maintenance, systems upgrade or redevelopment and system hardware diagnostic services in respect of the control systems. The engineering and maintenance services are complementary to the Group's products as they enable the Group to maintain an ongoing relationship with its customers, better understand their needs and generate additional sales opportunity.

***Distribution of equipment***

The Group also distributes equipment which is incidental to the business activity of system sales in order to fulfill the demand of various equipments used by its customers.

### 2.2 *Financial results*

Set out below are the audited consolidated financial results of the Group for the three years ended 31 December 2013, 2014 and 2015, and the unaudited consolidated financial results for the six-month periods ended 30 June 2015 and 2016 as set out in the relevant annual reports, interim report and interim results announcement of the Company:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(audited)* *(Note 2)* | *(audited and re-presented)* *(Note 1)* | *(audited)* | *(unaudited)* | *(unaudited)* |
| **Continuing operations** | | | | | |
| Revenue | 2,308,801 | 1,918,510 | 1,640,983 | 768,555 | 387,380 |
| Cost of sales | (1,480,486) | (1,297,566) | (1,143,164) | (500,231) | (314,815) |
| Gross profit | 828,315 | 620,944 | 497,819 | 268,324 | 72,565 |
| Selling and distribution expenses | (209,721) | (162,188) | (147,682) | (67,215) | (51,537) |
| Administrative expenses | (277,119) | (201,511) | (219,524) | (103,344) | (95,010) |
| Research and development expenses | (95,881) | (83,976) | (76,130) | (36,399) | (43,507) |
| Other income, expenses, gains and losses (net) | 13,940 | (4,211) | (311,682) | (20,459) | (21,317) |
| Finance costs | (135,145) | (130,276) | (94,016) | (61,351) | (26,222) |
| Share of results of associates/joint venture | (2,102) | (120) | (101) | 996 | 3,211 |
| Profit/(loss) before taxation | 122,287 | 38,662 | (351,316) | (19,448) | (161,817) |
| Income tax expense | (37,338) | (27,850) | (12,203) | (16,048) | (363) |
| Profit/(loss) for the year/period from continuing operations | 84,949 | 10,812 | (363,519) | (35,496) | (162,180) |
| **Discontinued operations** | | | | | |
| Profit/(loss) for the year/period from discontinued operations | – | 35,933 | 217,261 | 217,261 | – |
| Profit/(loss) for the year/period | 84,949 | 46,745 | (146,258) | 181,765 | (162,180) |
| Profit/(loss) for the year/period attributable to: | | | | | |
| – Owners of the Company | 73,574 | 35,272 | (105,114) | 186,113 | (136,899) |
| – Non-controlling interests | 11,375 | 11,473 | (41,144) | (4,348) | (25,281) |
| | 84,949 | 46,745 | (146,258) | 181,765 | (162,180) |

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | *(re-presented)* | | | |
| | *(Note 2)* | *(Note 1)* | | | |
| Gross profit margin *(Note 3)* | 35.9% | 32.4% | 30.3% | 34.9% | 18.7% |
| Net profit margin *(Note 4)* | 3.7% | 0.6% | -22.2% | -4.6% | -41.9% |

*Notes:*

1. On 26 May 2015, the Group completed the disposal of its 76.7% equity interest in Beijing Jiaoda Microunion. The audited consolidated financial results of the Group for the year ended 31 December 2014 were re-presented in the 2015 annual report to reflect the performance of Beijing Jiaoda Microunion as discontinued operations.

2. The audited consolidated financial results of the Group for the year ended 31 December 2013 were not re-presented for discontinued operations as mentioned in note 1.

3. Calculated by dividing gross profit by revenue.

4. Calculated by dividing profit/(loss) for the year from continuing operations by revenue.

***Financial year ended 31 December 2013***

Revenue of the Group increased from RMB2,210.8 million for the year ended 31 December 2012 to RMB2,308.8 million for the year ended 31 December 2013. The increase was mainly resulted from an increase in revenue of RMB240.0 million in the control valve business, offset by a decrease in revenue of RMB92.1 million in traction system business and a decrease in revenue of RMB66.5 million in distribution of equipment business.

During the year, the energy consumption demand of the PRC maintained steady growth and the safety and critical control system segment generated stable business as compared to that of 2012. Meanwhile, with the continuous efforts in sales and marketing, production, internal operation and research and development, the high-end control valves manufactured by the Group were well received by the market, leading to a robust organic growth in this business segment in 2013.

On the other hand, the railway industry of the PRC had undergone a significant reform after the Wenzhou high-speed train crash in 2011. The former Ministry of Railway was dissolved and the newly established CRC underwent an internal restructuring. Due to these institutional changes, the tendering activities for railway projects in China slowed down. The Group's traction system business was heavily affected as no tendering for equipment was conducted in the first half of 2013 and the sales of the Group's key product DC600V declined drastically which also affected the business of equipment distribution. Nevertheless, the Group was able to execute and deliver more signaling orders after the re-launch of the national railway construction projects in the second half of 2013. The Group has completed and delivered approximately 165 sets of systems in 2013 and resulted in a slight growth of 10% in the revenue of the signaling system business.

Notwithstanding the increase in revenue of the Group, as a result of unsatisfactory cost control, cost of sales of the Group increased from RMB1,345.6 million in 2012 to RMB1,480.5 million in 2013, resulting in a decrease of gross profit from RMB865.2 million in 2012 to RMB828.3 million in 2013.

Profit for the year ended 31 December 2013 decreased by 33.9% to RMB84.9 million while profit attributable to the owners of the Company decreased by 13.0% to RMB73.6 million as compared to those in 2012, which was mainly attributable to the drop in gross profit as explained above. Gross profit margin and net profit margin for the year was 35.9% and 3.7% respectively.

***Financial year ended 31 December 2014***

As explained in the paragraph headed "Principal activities" above, the Group disposed of its 76.7% equity interest in Beijing Jiaoda Microunion, which was the operating subsidiary of the railway traction system segment, in May 2015. The audited consolidated financial results of the Group for the year ended 31 December 2014 were re-presented in the 2015 annual report to reflect the performance of Beijing Jiaoda Microunion as discontinued operations. To facilitate the analysis of the financial performance of the Group for the years ended 31 December 2013 and 2014, set out below is the audited consolidated financial results of the Group for the year ended 31 December 2014 before the re-presentation as set out in the 2014 annual report:

| | Year ended 31 December | |
|---|---|---|
| | **2013** | **2014** |
| | *RMB'000* | *RMB'000* |
| | *(audited)* | *(audited)* |
| Revenue | 2,308,801 | 2,217,985 |
| Cost of sales | (1,480,486) | (1,456,820) |
| Gross profit | 828,315 | 761,165 |
| Selling and distribution expenses | (209,721) | (173,512) |
| Administrative expenses | (277,119) | (256,447) |
| Research and development expenses | (95,881) | (102,936) |
| Other income, expenses, gains and losses (net) | 13,940 | (18,352) |
| Finance costs | (135,145) | (130,383) |
| Share of results of associates/joint venture | (2,102) | (120) |
| Profit before taxation | 122,287 | 79,415 |
| Income tax expense | (37,338) | (32,670) |
| Profit for the year | 84,949 | 46,745 |
| Profit for the year attributable to: | | |
| – Owners of the Company | 73,574 | 35,272 |
| – Non-controlling interests | 11,375 | 11,473 |
| | 84,949 | 46,745 |

| | Year ended 31 December | |
|---|---|---|
| | **2013** | **2014** |
| Gross profit margin | 35.9% | 34.3% |
| Net profit margin | 3.7% | 2.1% |

For the year ended 31 December 2014, revenue of the Group decreased by RMB90.8 million, which was mainly due to the drop in revenue of RMB122.9 million in relation to the safety and critical control system business for the petrochemical industry and the drop in revenue of RMB99.4 million in the distribution of equipment business, partly offset by the increase in revenue of RMB88.7 million in the control valve business. Revenue for the railway industry had a slight growth of RMB15.1 million while the provision of engineering and maintenance services generated a moderate growth of RMB27.7 million during the year.

The drop in revenue in relation to the safety and critical control system business for the petrochemical industry and distribution of equipment was mainly resulted from the internal restructuring programme of the Group to scale down the non-profit making and low margin units in relation to the oil and gas pipeline related business. Nevertheless, leveraging on the strong engineering and maintenance services teams, the Group enjoyed an advantage in securing orders for its control valves products over similar domestic products. The Group recorded an increase in revenue of RMB88.7 million in the control valve business during the year.

The operating environment for the railway industry in the PRC improved in 2014. According to the statistics released by CRC, national railway fixed asset investments increased from RMB663.8 billion in 2013 to RMB808.8 billion in 2014. Revenue from the traction system business increased by RMB69.9 million which was driven by the resumption of tendering of rolling stock projects. However, the signaling business remained sluggish. The Group has completed a number of railway signaling system projects, yet some were delayed and as a result, the Group recorded a decline of 15.7% in revenue from this business segment.

Cost of sales for the year ended 31 December 2014 decreased generally in line with the drop in revenue, resulting in a decrease of gross profit of the Group by RMB67.1 million.

The Group recorded other losses (net of other income and gains) of RMB18.4 million for the year ended 31 December 2014 as compared to the other gains (net of other expenses and losses) of RMB13.9 million in 2013. This was mainly attributable to (i) the net foreign exchange loss of RMB12.5 million as compared to the net foreign exchange gain of RMB7.4 million in 2013 resulting from the execution of a distribution contract denominated in Japanese Yen; and (ii) the increase in allowance for bad and doubtful debts of RMB8.4 million provided against those accounts receivables aged over two years in respect of the clients from the railway industry as well as accounts receivables in relation to petrochemical businesses.

Selling and distribution expenses and administrative expenses decreased by RMB56.9 million in 2014, which was due to (i) savings on staff salaries resulted from a reduced headcount and lower management bonus; and (ii) lower rental expenses and savings on office expenses following the scale down of the non-profit making and low margin units.

As a result of the factors described above, profit for the year ended 31 December 2014 decreased by 45.0% to RMB46.7 million, profit attributable to the owners of the Company decreased by 52.1% to RMB35.3 million, and net profit margin dropped from 3.7% in 2013 to 2.1% in 2014.

***Financial year ended 31 December 2015***

The Group continued to experience an unfavorable market environment in 2015. For the year ended 31 December 2015, revenue of the Group further decreased to RMB1,641.0 million, representing a drop of 14.5% as compared to that in 2014. The decrease was mainly resulted from the drop in revenue generated from the safety and critical control system business for the petrochemical industry and the distribution of equipment business caused by the slowdown in the overall economy in the PRC and the decline in crude oil price. According to statistics released by the National Bureau of Statistics of the PRC, the gross domestic product ("**GDP**") growth rate in the PRC dropped to 6.9% in 2015, which is the lowest growth rate since 1990. Besides, oil price dropped significantly from the peak of US$115.1 per barrel in 2014 and remained low during 2015 within the range of US$36.11 per barrel to US$67.77 per barrel. The significant drop in oil price and slower economic growth have affected the eagerness of petroleum companies and other enterprises to incur capital expenditures, thus adversely affected the Group's safety and critical control system and equipment distribution businesses. As a result, both gross profit and gross profit margin dropped.

During the year ended 31 December 2015, the Group recorded a significant increase in other losses (net of other income and gains) which amounted to RMB311.7 million. This was mainly attributable to (i) a significant increase in the allowance for bad and doubtful debts of RMB93.6 million in 2015 against those accounts receivables aged over two years the recoverability of which is uncertain; (ii) significant impairment losses against goodwill and intangible assets including licenses, development expenditures as well as certain non-patented technologies in the aggregate amount of RMB179.2 million related to the signaling system business and traction system business against a backdrop of the overall slowdown in the PRC economy; (iii) a RMB14.8 million loss from early redemption of the Company's guaranteed notes; and (iv) a RMB30.4 million exchange loss arising from the devaluation of RMB versus US$ and other currencies.

Finance costs for the year ended 31 December 2015 decreased by RMB36.3 million when compared to 2014. Such decrease was primarily due to the early redemption of the Company's guaranteed notes as mentioned above with an outstanding principle amount of US$126.4 million (equivalent to approximately RMB785.6 million) during the year.

The continuing operations recorded a loss of RMB363.5 million for the year ended 31 December 2015 as compared to a profit of RMB10.8 million for the year ended 31 December 2014. On 26 May 2015, the Group completed the disposal of its 76.7% equity interest in Beijing Jiaoda Microunion for a cash consideration of approximately RMB811.7 million. The Group recorded a profit from discontinued operations amounting to RMB217.3 million for the period from 1 January 2015 to 26 May 2015, which included a gain on disposal of approximately RMB201.9 million after deducting direct expenses incidental to and income tax charged on the gain on the disposal. Despite the profit from discontinued operations, the Group recorded a net loss of RMB146.3 million and a loss attributable to Shareholders of RMB105.1 million for the year ended 31 December 2015.

***Six months ended 30 June 2016***

Revenue of the Group dropped severely from RMB768.6 million for the six months ended 30 June 2015 to RMB387.4 million for the six months ended 30 June 2016, representing a drop of 49.6%. Such drop was mainly due to the further decrease in the overall demand for the Group's products and services stemming from the slowdown in the overall economy in the PRC and the continued decline in crude oil price. GDP growth rate in the PRC for the second quarter of 2016 was 6.7%, representing a drop of 0.2% when compared to that of 2015, while crude oil price remained in the range of US$27.88 per barrel to US$52.51 per barrel during the first half of 2016. These negative sentiments have caused a slowdown in the capital expenditure plans of petroleum companies and other enterprises. Revenue from safety and critical control system for the petrochemical industry, control valve business and provision of engineering and maintenance services decreased by approximately RMB214.8 million, RMB113.9 million and RMB25.6 million respectively. Revenue generated from the traction system business also decreased by RMB30.8 million due to the delay in rolling stocks delivery for Guangzhou Subway Line Number 9 in the first half of 2016.

As a result of the decline in revenue, gross profit dropped significantly to RMB72.6 million, and gross profit margin shrank to 18.7% because of loss of economies of scale.

Due to the decrease in business activities, the Group incurred less selling and distribution expenses as well as administrative expenses for the six months ended 30 June 2016 as compared to those of the corresponding period in 2015. Finance costs also dropped by RMB35.1 million which was mainly attributable to the early redemption and full repayment of the 2016 guarantee notes in the amount of approximately RMB424.8 million in 2016.

Combining all the factors described above, the Group's continuing operations incurred a loss of RMB162.2 million for the six months ended 30 June 2016, representing an increase of RMB126.7 million as compared to a loss of RMB35.5 million in the corresponding period in 2015. Loss attributable to the owners of the Company amounted to RMB136.9 million, versus a profit attributable to the owners of the Company of RMB186.1 million in the corresponding period in 2015. The negative net margin recorded by the Group widened to 41.9% for the six months ended 30 June 2016 against 4.6% in the corresponding period in 2015.

### 2.3 *Financial position*

Set out below is a summary of the financial position of the Group as at 31 December 2015 and 30 June 2016 as set out in the annual report and interim results announcement of the Company:

| | **31 December 2015** | **30 June 2016** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | *(audited)* | *(unaudited)* |
| **Non-current assets** | | |
| Property, plant and equipment | 633,423 | 657,381 |
| Deposit for acquisition of property, plant and equipment | 5,223 | 11,500 |
| Prepaid lease payments – non-current portion | 136,315 | 271,417 |
| Intangible assets | 81,810 | 75,357 |
| Goodwill | 8,890 | 8,890 |
| Interests in associates | 23,092 | 21,400 |
| Interest in a joint venture | 5,433 | 10,676 |
| Pledged bank deposits | 4,731 | 1,216 |
| Deferred tax deposits | 32,209 | 46,836 |
| Available-for-sale financial assets | 64,217 | 64,217 |
| | 995,343 | 1,168,890 |
| **Current assets** | | |
| Prepaid lease payment – current portion | 3,434 | 4,033 |
| Inventories | 635,131 | 744,026 |
| Trade and bills receivables | 1,602,558 | 1,369,999 |
| Other receivables and prepayments | 176,954 | 209,996 |
| Pledged bank deposits | 73,576 | 43,869 |
| Bank balances and cash | 601,241 | 168,824 |
| | 3,092,894 | 2,540,747 |
| **Current liabilities** | | |
| Trade payables | 502,410 | 465,787 |
| Other payables, deposits received and accruals | 302,928 | 241,899 |
| Dividend payable | 6 | 6 |
| Income tax payable | 12,596 | 12,611 |
| Bank borrowings – due within one year | 283,551 | 444,971 |
| Guaranteed notes – due within one year | 424,817 | – |
| | 1,526,308 | 1,165,274 |

| | 31 December 2015 | 30 June 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | *(audited)* | *(unaudited)* |
| **Non-current liabilities** | | |
| Deferred tax liabilities | 16,640 | 16,640 |
| Bank borrowings – due after one year | 160,000 | 155,000 |
| Guaranteed notes – due within one year | 191,358 | 195,949 |
| Long term payable | 100,000 | 100,000 |
| Deferred income | 172,750 | 320,502 |
| | 640,748 | 788,091 |
| **Total Equity** | 1,921,181 | 1,756,272 |
| Equity attributable to owners of the Company | 1,773,010 | 1,633,382 |
| Non-controlling interests | 148,171 | 122,890 |
| | 1,921,181 | 1,756,272 |

***As at 31 December 2015***

As at 31 December 2015, total assets of the Group amounted to approximately RMB4,088.2 million, which comprised principally (i) property, plant and equipment of approximately RMB633.4 million; (ii) inventories of approximately RMB635.1 million; (iii) trade and bills receivables of approximately RMB1,602.6 million; and (iv) bank balances and cash of approximately RMB601.2 million.

Property, plant and equipment comprised principally buildings, fixtures and electronic equipment used as production facilities of the Group in Beijing, Nanjing and the Ningxia Hui Autonomous Region and construction in progress for the infrastructure of the control valve business. Inventories comprised principally (i) raw materials of approximately RMB486.8 million; (ii) work in progress of approximately RMB101.1 million; and (iii) finished goods of approximately RMB47.2 million. 70% of the property, plant and equipment and 9.4% of the total inventories were pledged to secure banking facilities for the Group.

We note that a significant portion of the Group's assets is trade and bills receivables. The trade and bills receivables amounted to RMB1,602.6 million, of which RMB620.9 million had been outstanding for over half a year. We also note that the Group has made substantial allowances for bad and doubtful debts amounting to HK$124.5 million for the year ended 31

December 2015. The table below sets out our analysis of the average collection day of the Group's trade and bills receivables for the three financial years ended 31 December 2013, 2014 and 2015:

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| Revenue for the year ended 31 December *(RMB'000)* | 2,308,801 | 1,918,510 | 1,640,983 |
| Outstanding amount of trade and bills receivables as at 31 December *(RMB'000)* | 1,824,813 | 1,846,394 | 1,602,558 |
| Trade and bills receivables turnover ratio *(Note 1)* | 1.31 | 1.05 | 0.95 |
| Trade and bills receivables collection days *(Note 2)* | 279 | 348 | 384 |
| Impairment losses on trade and bills receivables for the year ended 31 December | 59,673 | 30,846 | 124,459 |

*Notes:*

1. Trade and bills receivables turnover ratio is calculated by dividing the revenue by the average balance of trade and bills receivables of the year (i.e. average of the beginning balance and the closing balance).

2. Trade and bills receivables collection days is calculated by dividing 365 days by the trade and bills receivables turnover ratio.

As shown in the table above, the average trade and bills receivables collection days for each of the years ended 31 December 2013, 2014 and 2015 were 279 days, 348 days and 384 days respectively. We have discussed with the executive Directors and management of the Company and understand that the lengthening of the receivables collection days was caused by the worsening business environment of the petroleum industry due to the drop in oil price since 2014. As a result, customers of the Group were slow in settling their trade balances with the Group. Impairment losses for the trade receivables were recorded every year which revealed the recoverability problem with the trade and bills receivables faced by the Group.

Total liabilities of the Group as at 31 December 2015 amounted to RMB2,167.1 million, comprising principally (i) trade payables of approximately RMB502.4 million; (ii) other payables, deposits received and accruals of RMB302.9 million; (iii) bank borrowings of approximately RMB443.6 million; and (iv) guaranteed notes of approximately RMB616.2 million. Of the total borrowings, approximately RMB283.6 million bank borrowings and RMB424.8 million guaranteed notes are due within one year.

*As at 30 June 2016*

As at 30 June 2016, total assets of the Group amounted to approximately RMB3,709.6 million. During the six months ended 30 June 2016, the Group acquired land use rights amounting to approximately RMB137.6 million for the second phase of the new manufacturing facilities and offices of the Group and their auxiliary buildings which are mainly used as staff dormitory and quarters. In addition, due to project delays, the inventory level of the Group has built up to RMB744.0 million, representing an increase of approximately 17.1%. Despite these increases in assets, total assets of the Group as at 30 June 2016 were less than that as at 31 December 2015 by RMB378.6 million as a result of the reduction in trade and bills receivable balances due to collection of receivables during the period and the decrease in bank balance after the repayment of the guaranteed notes.

Total liabilities of the Group as at 30 June 2016 amounted to RMB1,953.4 million as compared to RMB2,167.1 million as at 31 December 2015. The drop in total liabilities of RMB213.7 million was mainly due to the repayment of the 2016 guarantee notes in the amount of approximately RMB424.8 million and the decrease of other payables, deposits received and accruals of RMB61.0 million, partly offset by the newly raised bank borrowing of RMB161.4 million and the increase in deferred income of RMB147.8 million which represented government grants received for the purchase of the land use right in connection with the aforesaid new manufacturing facilities and offices of the Group and their auxiliary buildings, and the compensations for relocation of the manufacturing facilities and offices of the Group.

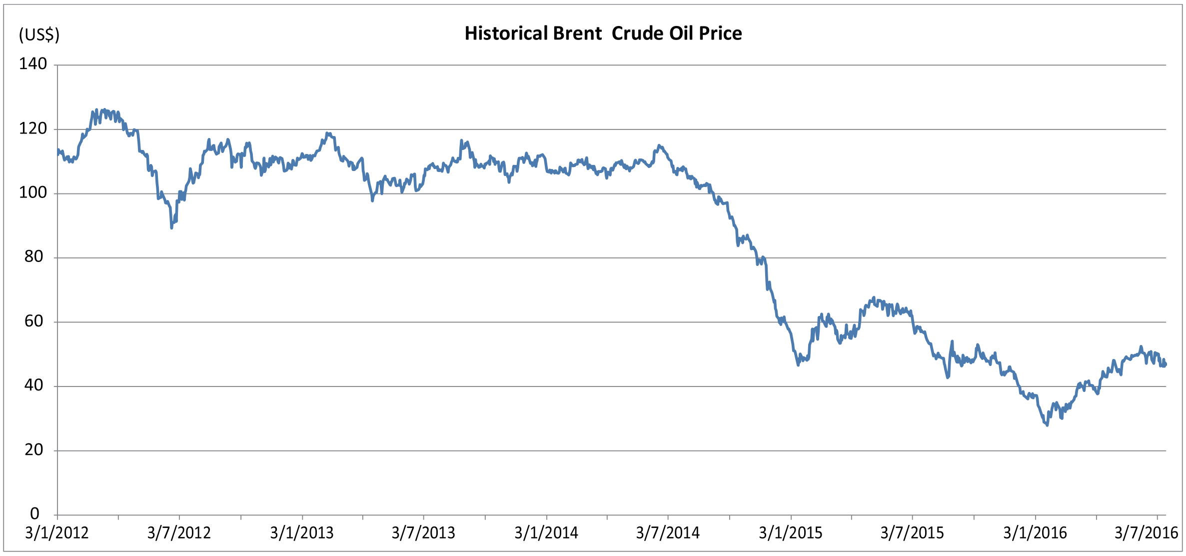
Equity attributable to owners of the Company amounted to RMB1,633.4 million, representing a reduction of 7.9% as compared to that as at 31 December 2015.

**3. Prospects of the Group**

The business of the Group is largely dependent on the development of various processing industries in the PRC including petrochemical, coal chemical, oil and gas, iron and steel as well as railway transportation industries. Since the Group mainly derived its sales in the PRC, the Group's continued growth also depends heavily on the general economic condition in the PRC. A downturn or slowdown in the PRC economy would have adverse effects on the Group's business. As mentioned in the paragraph headed "Financial results" under the section headed "Information of the Group" above, the GDP growth rate in the PRC dropped to 6.9% in 2015, which is the lowest growth rate since 1990. The downward pressure on the PRC economy remained in recent years which resulted in the deceleration of growth of fixed asset investments in the PRC. According to the statistics released by the National Bureau of Statistics of the PRC, fixed asset investments grew at 10% in 2015, which is the slowest growth since 2000. The decrease in fixed asset investments would lower the demand for the products of the Group.

Apart from being affected by the economic environment in the PRC, the business of the Group with its specialisation in safety and critical control system for the petroleum industry is also highly sensitive to fluctuations in oil prices. A prolonged decline or anticipation of drop in oil prices may lead to a tighter budget for capital expenditures for petrochemical, coal and chemical enterprises. Since most of the key customers of the Group are large petrochemical enterprises in the PRC, a tighter capital expenditure budget of these key customers would also lead to a lesser demand for the products of the Group.

Set out below is the chart of brent crude oil price for the period from 1 January 2012 to the Latest Practical Date:




*Source: Bloomberg*

As shown in the above chart, crude oil price has dropped significantly since mid-2014, although some recoveries were seen in mid-2015. The drop in oil price had dampened demand for equipment and system upgrade in the petrochemical and coal chemical industries. This could be evidenced by the continuous decrease in capital expenditures of major petrochemical companies in the PRC which are the key customers of the Company in the last three years. Set out below is a summary of the capital expenditures of major petrochemical companies in the PRC which are the key customers of the Company for the three years ended 31 December 2013, 2014 and 2015:

| | **2013** | **2014** | **2015** |
|---|---|---|---|
| | *RMB'm* | *RMB'm* | *RMB'm* |
| China Petroleum & Chemical Corporation | 185,126 | 154,640 | 112,249 |
| PetroChina Co. Ltd. | 318,696 | 291,729 | 202,238 |
| China Shenhua Energy Co. Ltd. | 48,000 | 44,830 | 35,430 |
| China Coal Energy Co. Ltd. | 29,986 | 22,932 | 12,543 |

*Source: Published annual reports of the respective company*

In response to the unfavourable market sentiment, the Group's safety and critical control system related business experienced a correction in 2015. The Group has undertaken various measures to streamline and enhance its operations, including implementing a stringent budgetary planning and control system and cost-control measures with an aim to lowering its sales and marketing costs as well as operational costs. Notwithstanding the internal restructuring and the effort to control costs, the Group recorded a loss for the year from continuing operations. In the absence of any evident significant recovery in oil price, petrochemical industry is likely to continue to face challenges which would in turn adversely affect the demand for the Group's products and the prospects of the Group.

The railway industry in the PRC experienced various reforms in recent years. In 2013, the former Ministry of Railway was dissolved and the CRC was established. China Railway Rolling Stock Corporation was formed in 2015 through the merger of China CNR Corporation and CSR Corporation Limited. These reforms have caused uncertainty to the business environment in the railway industry which affects the prospects of this business segment of the Group.

**4. Information on the Offeror and intentions of the Offeror**

The Offeror is, through Brightex, indirectly wholly owned by Mr. Xuan who is the Group's founder, an executive Director and Chairman of the Company. As disclosed in the letter from Somerley contained in the Composite Document, Mr. Xuan is an incumbent director of Yabuli Entrepreneur Association and Deputy Chairman of China Instrument and Control Society, and a director and deputy chairman of Guangdong Kaiping Chunhui Co., Ltd. (廣東開平春暉股份有限公司) which is a company listed on the Shenzhen Stock Exchange (Stock Code: 000976). Mr. Xuan is also one of the winners of Ernst & Young Entrepreneur of The Year 2009 China. He has extensive experience in management, administration and business development in different industries including industrial automation, biotechnology, telecommunication and trading in the PRC. He previously served as General Manager of Boda Telecommunication and Electronics Company Ltd. in Yunnan, Manager of Beijing Invention Biology Company Ltd. and General Manager of Beijing Consen Automation Control Co., Ltd.

Following completion of the Offers, the Offeror intends to undertake a detailed strategic review of the Group for the purpose of formulating business plans and strategies for the future business development of the Group and determining what changes, if any, would be appropriate or desirable in order to optimise the business activities of the Group. It is the intention of the Offeror to continue with the existing principal businesses of the Group in the manner in which they are presently conducted. The Offeror does not intend to introduce any major changes to the existing operation and business of the Company immediately after the Offers. As at the Latest Practicable Date, the Offeror has no intention to dispose of assets and/or business of the Group, other than in the ordinary and usual course of its business, nor any plan to terminate the employment of any employees or other personnel of the Group.

To the extent AACL acquires Shares following the exercise of its Exchange Right following the Determination Date and before the Final Exchange Date as disclosed in the letter from Somerley in the Composite Document, it will be a financial investor in the Company, assist and provide advice to the Offeror in undertaking a detailed strategic review on the Group and possibly cooperate with the Offeror and the Company in the future business development of the Group.

As disclosed in the letter from Somerley in the Composite Document, Mr. Huang and Mr. Kuang shall resign as Directors with effect from the earliest time permitted under the Takeovers Code, and the Offeror intends to nominate new Director(s) to the Board after the date of the Composite Document. Save for the aforesaid proposed changes in Board composition, the Offeror has no intention to introduce any significant changes to the management of the Group, or to discontinue the employment of the employees, following completion of the Offers.

**5. Evaluation of the Offer Price**

***5.1 Comparison of the Offer Price and historical Share prices***

The Offer Price of HK$1.20 per Share represents:

(i) a premium of approximately 18.8% over the closing price of HK$1.01 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 36.2% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of HK$0.881 per Share;

(iii) a premium of approximately 44.2% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day of HK$0.832 per Share;

(iv) a premium of approximately 42.5% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day of HK$0.842 per Share;

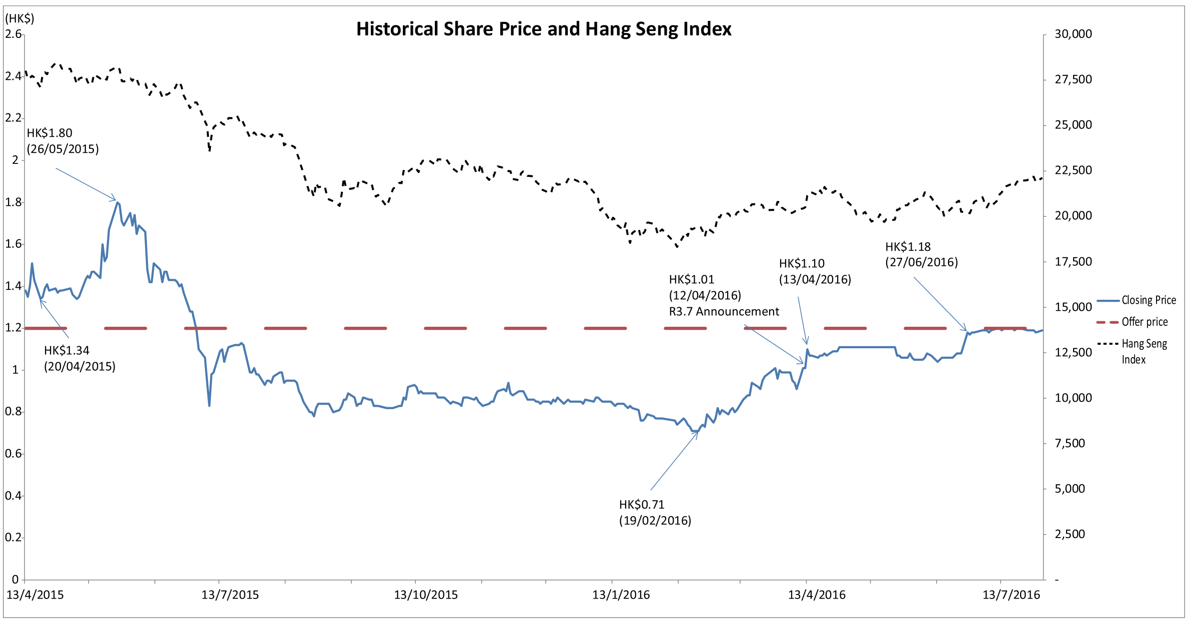
(v) a premium of approximately 0.8% over the closing price of HK$1.19 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) a discount of approximately 42.0% to the audited equity attributable to owners of the Company of approximately RMB1.73 (equivalent to approximately HK$2.07) per Share as at 31 December 2015 (based on the audited total equity attributable to owners of the Company of RMB1,773,010,000 as at 31 December 2015 as disclosed in the 2015 annual report and the 1,026,263,729 Shares in issue as at that date); and

(vii) a discount of approximately 37.2% to the unaudited equity attributable to owners of the Company of approximately RMB1.59 (equivalent to approximately HK$1.91) per Share as at 30 June 2016 (based on the unaudited total equity attributable to owners of the Company of RMB1,633,382,000 as at 30 June 2016 as disclosed in the 2016 interim results announcement and the 1,026,263,729 Shares in issue as at that date).

### *5.2 Historical Share price performance*

The chart below depicts the closing prices of the Shares traded on the Stock Exchange and the Hang Seng Index from 13 April 2015, being the date falling 12 months preceding the date of the Rule 3.7 Announcement, up to and including the Latest Practicable Date (the "**Review Period**"):




*Source: Bloomberg*

During the period from 13 April 2015 to 26 May 2015 when the daily turnover on the Stock Exchange reached new highs after the Stock Exchange launched the programme of Shanghai-Hong Kong Stock Connect, the closing price of the Shares ranged from HK$1.34 to HK$1.80, with an average of approximately HK$1.44. Since the closing price of the Shares reached its peak of HK$1.80 on 26 May 2015, it gradually went downwards due to the evolvement of the A share crisis in the PRC stock market. We note that the significant fluctuation in Share price during late May to August 2015 was generally in line with that of the Hang Seng Index. As shown from the chart above, the Shares have been traded within a narrow price range during September 2015 to April 2016 before the release of the Rule 3.7 Announcement and recorded the lowest closing price during the Review Period of HK$0.71 on 19 February 2016.

Immediately following the publication of the Rule 3.7 Announcement on 12 April 2016, the closing price of the Shares rose from HK$1.01 on 12 April 2016 to HK$1.10 on the next trading day and maintained around that level before the release of the announcement of the Offers on 24 June 2016. Trading in the Shares was suspended on 24 June 2016, on which the Company published the announcement of the Offers. Thereafter, the closing price of the Shares increased to HK$1.18 and maintained in the range of HK$1.18 to HK$1.20 and closed at HK$1.19 as at the Latest Practicable Date.

As shown in the above chart, the closing price of the Shares was below the Offer Price at all times since 2 July 2015 up to the Latest Practicable Date, except for several trading days after the release of the announcement in relation to the Offers when the closing price of the Shares was the same as the Offer Price. The Offer Price represents a premium of approximately 36.2%, 44.2% and 42.5% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30, 60 and 90 consecutive trading days up to and including the Last Trading Day respectively. The Company is not aware of the reason for the rise in Share price after the Rule 3.7 Announcement. In our opinion, such rise is probably due to the announcement of a change in control of the Company and the Offers. There is no assurance that the Share price will remain at the current level if the Offers close, lapse or do not become unconditional for any reason.

### *5.3 Liquidity of the Shares*

The following table sets out the trading volume of the Shares during the Review Period:

| | Total trading volume for the month/ period | Average daily trading volume for the month/ period *(Note 1)* | Percentage of average daily trading volume to the total issued Shares as at the Latest Practicable Date *(Note 2)* | Percentage of average daily trading volume to the total number of Shares held by public Shareholders as at the Latest Practicable Date *(Note 3)* |
|---|---|---|---|---|
| **2015** | | | | |
| 13 to 30 April | 107,877,000 | 7,705,500 | 0.75% | 1.36% |
| May | 129,685,616 | 6,825,559 | 0.67% | 1.20% |
| June | 86,310,326 | 3,923,197 | 0.38% | 0.69% |
| July | 60,244,200 | 2,738,373 | 0.27% | 0.48% |
| August | 39,246,000 | 1,868,857 | 0.18% | 0.33% |
| September | 13,540,000 | 677,000 | 0.07% | 0.12% |
| October | 42,877,000 | 2,143,850 | 0.21% | 0.38% |
| November | 38,905,990 | 1,852,666 | 0.18% | 0.33% |
| December | 17,203,000 | 781,955 | 0.08% | 0.14% |
| **2016** | | | | |
| January | 28,104,615 | 1,405,231 | 0.14% | 0.25% |
| February | 26,719,615 | 1,484,423 | 0.14% | 0.26% |
| March | 34,037,000 | 1,620,810 | 0.16% | 0.29% |
| April (for 18 trading days as trading of Shares was suspended on 12 April and 29 April) | 30,531,090 | 1,696,172 | 0.17% | 0.30% |
| May (for 5 trading days as trading of Shares was suspended from 29 April to 24 May) | 16,336,000 | 3,267,200 | 0.32% | 0.58% |
| June (for 20 trading days as trading of Shares was suspended on 24 June) | 75,338,400 | 3,766,920 | 0.37% | 0.66% |
| July | 47,415,000 | 2,370,750 | 0.23% | 0.42% |
| August (for 1 trading day on 1 August which is the Latest Practicable Date) | 7,296,000 | 7,296,000 | 0.71% | 1.29% |

*Source: Bloomberg*

*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading days on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.

2. Based on 1,026,263,729 Shares in issue as at the Latest Practicable Date.

3. Based on 567,330,188 Shares held by the public Shareholders as at the Latest Practicable Date as disclosed in the letter from the Board contained in the Composite Document.

As illustrated in the above table, the average daily trading volume during the Review Period ranged from around 700,000 Shares to 7,700,000 Shares, representing approximately 0.07% to 0.75% of the total number of Shares in issue as at the Latest Practicable Date, and approximately 0.12% to 1.36% of the total number of Shares held by public Shareholders as at the Latest Practicable Date. Higher trading volume was noted in April to May 2015 when the Hong Kong capital market was very active and daily turnover on the Stock Exchange reached new highs. With the evolvement of the A share crisis in the PRC stock market since late May 2015, the daily average trading volume subsided to around 3,000,000 Shares in July 2015. The daily average trading volume remained relative low at around 1,000,000 Shares to 2,000,000 Shares from August 2015 onwards. Even with the increase of the daily average trading volume after the publication of the announcement of the Offers, the percentage of average daily trading volume to the total issued Shares held by public Shareholders was only approximately 0.42% in July 2016. In light of the thin liquidity of the Shares during the Review Period, we are of the view that the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares, and that the Share Offer provides the Shareholders with an assured exit if they wish to realise their investments in the Shares.

***5.4 Comparable companies***

For the purpose of assessing the fairness and reasonableness of the Offer Price, we consider that it is relevant to assess the Offer Price by making reference to market valuation for companies listed in Hong Kong which are principally engaged in businesses similar to those of the Group.

Having noted the principal activities of the Group and the significant contribution of revenue from system sales and provision of engineering design services for petrochemical companies as described in the section headed "Information of the Group" above, we consider that companies (i) which are principally engaged in the provision of safety and critical control systems for petrochemical industry or the manufacturing of control valves used in the petrochemical industry; (ii) with revenue generated from the provision of safety and critical control systems for petrochemical industry or the manufacturing of control valves contributing not less than 50% of the total turnover for the latest financial year; and (iii) whose shares are listed on the main board or Growth Enterprise Market of the Stock Exchange are companies comparable to the Company and their market valuation would provide meaningful references for the purpose of our assessment of the fairness and reasonableness of the Offer Price. However, to the best of our knowledge, we have not identified any listed company in Hong Kong which satisfies the criteria described above and accordingly we are not able to perform any comparison of the Offer Price against the market valuation of comparable companies.

### *5.5 Fundamentals of the Group*

As the Group recorded a net loss for the most recent financial year ended 31 December 2015, no price earnings multiple can be derived from the Offer Price. No dividend has been declared by the Company for the past three financial years and thus no dividend yield can be computed.

According to the 2015 annual report of the Company, the consolidated net asset value per Share as at 31 December 2015 was approximately RMB1.73 per Share (equivalent to approximately HK$2.07). The Offer Price represents a discount of approximately 42.0% to the aforesaid net asset value per Share. The Offer Price also represents a discount of approximately 37.2% to the unaudited equity attributable to owners of the Company of RMB1.59 per Share (equivalent to approximately HK$1.91) as at 30 June 2016 based on the unaudited consolidated net asset attributable to owners of the Company of RMB1,633,382,000 as disclosed in the 2016 interim results announcement of the Company and 1,026,263,729 Shares in issue as at that date.

We consider that the net asset value per Share is a reference for the value of the Shares if the Company were put under liquidation in a non-distressed state and assuming willing buyers of assets at the stated value. It does not represent a cash value per Share which the Company may actually return to the Shareholders. In addition, as discussed in the section headed "Information of the Group" above, the Group's total assets as at 31 December 2015 and 30 June 2016 comprised a substantial amount of trade and bills receivables with collection days of over one year, and fixed assets used in its production activities and inventories which may not be readily realisable into cash. Given the quality and nature of the Group's assets, we have not placed significant weight on the comparison of the Offer Price with the net asset value per Share in our assessment of the fairness and reasonableness of the Offer Price. Instead, we would focus on the comparison of the Offer Price with trading prices of the Shares, as we consider that the trading price of the Shares determined under an open market to be a fair price. As illustrated in the chart shown in the paragraph headed "Historical Share price performance" above, the trading price of the Shares was below the consolidated net asset value per Share throughout the Review Period.

## 6. Option Offer

The Company has outstanding Options in respect of 102,626,000 Shares granted under the Share Option Scheme. As stated in the 2015 annual report of the Company, the Options have a validity period from 25 July 2014 to 24 July 2018 and have been and will be exercisable provided that relevant performance targets are achieved and the closing price of the Share on the trading day immediately preceding the date of exercise is HK$2.40 or above. The exercise price of the Options is HK$1.60 per Share. As, among other things, the closing price per Share was HK$1.19 as at the Latest Practicable Date and was lower than HK$2.40, all the Options are not exercisable. In addition, the exercise price of the Options is higher than the Offer Price and the Options have no implied intrinsic value. Accordingly, we consider the Option Offer Price of a nominal amount of HK$0.01 for the cancellation of each Option to be fair and reasonable so far as the Independent Optionholders are concerned.

**7. Compulsory acquisition**

Independent Shareholders and Independent Optionholders should note that according to the letter from Somerley contained in the Composite Document, if the Offeror receives valid acceptances of the Share Offer for not less than 90% in value of the Shares for which the Share Offer is made within four months of the posting of the Composite Document, the Offeror will consider to exercise the right under section 88 of the Cayman Islands Companies Law to compulsorily acquire those Shares not acquired by the Offeror under the Share Offer. On completion of the compulsory acquisition, if such right is exercised, the Offeror will hold 100% interest in the Company and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise the Company by means of the Share Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Cayman Islands Companies Law, acceptance of the Share Offer and purchases made by the Concert Group during the four months after posting of the Composite Document total 90% or more of the disinterested Shares (as defined in the Takeovers Code).

**8. Public float of the Company**

If the Offeror receives acceptances of the Share Offer for less than 90% of the Shares for which the Share Offer is made and the public float of the Company falls below 25% after the close of the Share Offer, the Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offers.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public, or if the Stock Exchange believes that:

(i) a false market exists or may exist in the trading of the Shares; or

(ii) that there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares.

The director of the Offeror, the Directors and any new Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange that they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible following the close of the Offers to ensure that sufficient public float exists in the Shares.

**RECOMMENDATION**

Having considered the principal factors and reasons as discussed above, in particular,

(i) the Offer Price represents a significant premium of 42.5% and 36.2% over the 90-day and 30-day average closing price of the Shares up to and including the Last Trading Day, and a premium of 18.8% and 0.8% over the closing price of the Shares on the Last Trading Date and as at the Latest Practicable Date respectively;

(ii) the Share prices were below the Offer Price during most of the time during the Review Period. The recent increase in the price of the Shares was possibly due to the Offers and the speculation of a change in control, which may not be sustainable in the absence of the Offers;

(iii) the financial results of the Group have been deteriorating over the past four financial years. Revenue, gross profit and net profit were all in a downward trend with losses recorded in 2015 and the six months ended 30 June 2016;

(iv) given that global oil prices continue to be in doldrums in the medium term which dampens demand for the Group's products and services and the sluggishness in the economy in the PRC, the business environment of the Group is expected to remain challenging;

(v) the net assets of the Group comprised substantially trade and bills receivables with long collection period and uncertain collectibility, fixed assets used in the production activities and inventories which are not readily realisable into cash;

(vi) no dividend has been declared and paid by the Company for the past three financial years. Those Independent Shareholders who seek for dividend return for their investments may consider accepting the Share Offer and invest the proceeds receivable therefrom in other securities with better dividend yield than the Shares; and

(vii) liquidity of the Shares was generally low and the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares. The Share Offer provides an assured opportunity to the Independent Shareholders to realise their investments in the Company;

we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer.

As the outstanding Options are not exercisable as at the Latest Practicable Date and are out of the money with no implied intrinsic value based on the Offer Price, we consider the Option Offer Price of a nominal amount of HK$0.01 for the cancellation of each Option is fair and reasonable so far as the Independent Optionholders are concerned. Accordingly, we also advise the Independent Board Committee to recommend the Independent Optionholders to accept the Option Offer.

Independent Shareholders should note that the price of the Shares has substantially increased and consistently traded at the level close to the Offer Price since 24 June 2016 following the publication of the announcement of the Offers. Independent Shareholders who wish to realise part or all of their investments in the Company are reminded to carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market instead of accepting the Share Offer, if the net proceeds of such sale after deducting all transaction costs exceed the net amount to be received under the Share Offer.

Independent Shareholders and Independent Optionholders should also read carefully the procedures for accepting the Share Offer and the Option Offer set out in the letter from Somerley and in Appendix I to the Composite Document and the accompanying Forms of Acceptance.

Yours faithfully,
for and on behalf of
**OPTIMA CAPITAL LIMITED**
**Beatrice Lung**
*Managing Director*

## 1. PROCEDURES FOR ACCEPTANCE

To accept either of the Offers, you should complete and sign the relevant Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the relevant Offers.

### 1.1 The Share Offer

(a) If the share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must send the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong marked "China Automation Group Limited – Share Offer" on the envelope as soon as possible but in any event so as to reach the Registrar by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

(b) If the share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must either:

(i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or

(ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the **WHITE** Form of Share Offer Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or

(iii) your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

(iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

(c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Offeror and/or Somerley Capital Limited and/or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.

(d) If the share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares should be forwarded to the Registrar as soon as possible thereafter. If you have lost the share certificate(s) and/or transfer receipt(s) and/or other documents of title in respect of your Shares, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given should be provided to the Registrar.

(e) Acceptances of the Share Offer will be treated as valid only if the completed and signed **WHITE** Form of Share Offer Acceptance is received by the Registrar by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:

(i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares and, if that/those share certificate(s) and/or transfer receipt(s) and/or other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or

(ii) from a registered Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or

(iii) certified by the Registrar or the Stock Exchange.

(f) If the Form of Share Offer Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

(g) Seller's ad valorem stamp duty payable by the Shareholders who accept the Share Offer and calculated at a rate of 0.1% of the market value of the Offer Shares or consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is the higher, will be deducted from the amount payable by the Offeror to the relevant Shareholders on the acceptance of the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the Shareholders who accept the Share Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the Offer Shares.

(h) No acknowledgement of receipt of any **WHITE** Form of Share Offer Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other documents) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares will be given.

### 1.2 The Option Offer

(a) If you are an Optionholder and you wish to accept the Option Offer in respect of your Options (whether in full or in part), you must send the duly completed and signed **YELLOW** Form of Option Offer Acceptance together with the relevant certificate(s) or other documents (if any) evidencing the grant of the Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of Options which you hold that you wish to tender to the Option Offer to the company secretary of the Company at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai Hong Kong, marked "China Automation Group Limited – Option Offer" on the envelope as soon as possible but in any event so as to reach the company secretary of the Company by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional, the Optionholders may exercise the Options within 21 days of the notice of the Offeror (to the extent which the Options have become exercisable on the date of the notice of the Offeror and not already exercised) to its full extent or to the extent specified in such notice. The Options not exercised at the expiry of such 21-day period shall lapse.

(b) No stamp duty will be deducted from the amount paid or payable to the Optionholders who accept the Option Offer.

(c) No acknowledgement of receipt of any **YELLOW** Form of Option Offer Acceptance and/or the certificate(s) or other documents (if any) evidencing the grant of the Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Options will be given.

## 2. SETTLEMENT UNDER THE OFFERS

### 2.1 The Share Offer

Provided that a valid **WHITE** Form of Share Offer Acceptance and the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Shares as required by Note 1 to Rule 30.2 of the Takeovers Code are complete and in good order and in all respects and have been received by the Registrar by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each of the Shareholders who accept the Share Offer less seller's ad valorem stamp duty in respect of the Offer Shares tendered by him/her under the Share Offer will be despatched to such Shareholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) business days (as defined in the Takeovers Code) of (i) the date on which the duly completed acceptances of the Share Offer and the relevant documents of title in respect of such acceptances are received by the Registrar to render each such acceptance complete and valid or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.

### 2.2 The Option Offer

Provided that a valid **YELLOW** Form of Option Offer Acceptance and the relevant option certificate(s) or other documents (if any) evidencing the grant of the Options and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Options are complete and in good order and in all respects and have been received by the company secretary of the Company by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each of the Optionholders who accept the Option Offer in respect of the Options tendered by him/her under the Option Offer will be despatched to such Optionholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) business days (as defined in the Takeovers Code) of (i) the date on which the duly completed acceptances of the Option Offer and the relevant documents of title in respect of such acceptances are received by the company secretary of the Company to render each such acceptance complete and valid or (ii) the date on which the Offers become or are declared unconditional in all respects, whichever is the later.

No fractions of a cent will be payable and the amount of consideration payable to a Shareholder who accepts the Share Offer will be rounded up to the nearest cent.

Settlement of the consideration to which any Shareholder or Optionholder is entitled under the Share Offer or the Option Offer, as the case may be, will be implemented in full in accordance with its terms (save in respect of the payment of the seller's ad valorem stamp duty in respect of the Share Offer) without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder or Optionholder.

## 3. ACCEPTANCE PERIOD AND REVISIONS

(a) Unless the Offers have previously been revised or extended with the consent of the Executive, to be valid, the **WHITE** Form of Share Offer Acceptance must be received by the Registrar and the **YELLOW** Form of Option Offer Acceptance must be received by the company secretary of the Company, in each case, in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date.

(b) If the Offers are extended, the Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Closing Date or, a statement that the Offers will remain open until further notice. In the latter case, at least fourteen (14) days' notice in writing must be given before the Offers are closed to those Shareholders and Optionholders who have not accepted the relevant Offers before the Offers are closed. If, in the course of the Offers, the Offeror revises the terms of the Offers, all Shareholders and

Optionholders, whether or not they have already accepted the Offers, will benefit under the revised terms. A revised offer must be kept open for at least fourteen (14) days following the date on which the revised offer document is posted.

(c) If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

**4. NOMINEE REGISTRATION**

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offers.

**5. ANNOUNCEMENTS**

(a) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the expiry, revision and extension of the Offers. The Offeror must publish an announcement in accordance with the Takeovers Code on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been revised, extended or expired. The announcement will state, among other matters, the following:

(i) the total number of Offer Shares for which acceptances of the Share Offer have been received;

(ii) the total number of Options for which acceptances of the Option Offer have been received;

(iii) the total number of Shares and Options held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period; and

(iv) the total number of Shares and Options acquired/cancelled (as the case maybe) or agreed to be acquired/cancelled (as the case maybe) during the Offer Period by the Offeror and parties acting in concert with it.

The announcement must also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any person acting in concert with it has borrowed or lent (save for any borrowed Shares which have been either on lent or sold) and specify the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

(b) In computing the total number of Shares and Options represented by acceptances, only valid acceptances that are completed and in good order, and which have been received by the Registrar (in the case of the Share Offer) or the company secretary of the Company (in case of the Option Offer), no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offers, shall be included.

All announcements in relation to the Offers will be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

## 6. RIGHT OF WITHDRAWAL

The Offers are conditional upon fulfillment of the condition set out in the letter from Somerley Capital Limited in this Composite Document. Acceptances of the Offers shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Takeovers Code, which is to the effect (in the case of the Share Offer) that an acceptor of the Offers shall be entitled to withdraw his/her/its consent within 21 days from the Closing Date (being Friday, 26 August 2016) and if the Offers have not by then become unconditional as to acceptances. An acceptor of the Offers may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar in the case of the Share Offer or the company secretary of the Company in the case of the Option Offer.

Further, in the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers as described in the paragraph headed “5. Announcements” above), the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

Save as aforesaid, acceptances of the Offers shall be irrevocable and not capable of being withdrawn.

If an acceptor of Offers withdraws the acceptance or if the Offers lapse, the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares and/or Options lodged with the Form of Acceptance to the relevant acceptors.

## 7. LAPSE OF OPTIONS

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional, the Optionholders may exercise the Options within 21 days of the notice of the Offeror (to the extent which the Options have become exercisable on the date of the notice of the Offeror and not already exercised) to its full extent or to the extent specified in such notice. The Options not exercised at the expiry of such 21-day period shall lapse.

Nothing in this Composite Document or the Option Offer will serve to extend the life of any Option which lapses under the Share Option Scheme. No exercise of Options or acceptance of the Option Offer may be made in relation to any Option that has lapsed.

## 8. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS

The making of the Offers to the Overseas Shareholders and the Overseas Optionholders may be affected by the laws of the relevant jurisdictions. The Overseas Shareholders and the Overseas Optionholders should observe any applicable legal or regulatory requirements. The Overseas Shareholders and the Overseas Optionholders should obtain appropriate legal advice regarding the implications of the Offers in the relevant jurisdictions with a view to observing any applicable legal or regulatory requirements. It is the responsibility of Overseas Shareholders and Overseas Optionholders who wish to accept the relevant Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith, including but not limited to the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or regulatory or legal requirements. Overseas Shareholders and Overseas Optionholders will also be fully responsible for the payment of any transfer or other taxes and duties by the accepting Overseas Shareholders or Overseas Optionholders payable in respect of all relevant jurisdictions. Acceptance of an Offer by Overseas Shareholders and Overseas Optionholders will constitute a representation and warranty by the accepting person that the local laws and requirements have been complied with and such person is permitted under all applicable laws to receive and accept the Offers, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited will give, or be subject to, any of the above representations and warranties.

## 9. TAX IMPLICATIONS

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Share Offer. It is emphasised that none of the Offeror and parties acting in concert with it, the Company and its ultimate beneficial owners and parties acting in concert with any of them, Somerley Capital Limited, Optima Capital, the Registrar or any of their respective directors or professional advisers or any other parties involved in the Share Offer or any of their respective agents is in a position to advise the Independent Shareholders on their individual tax implications nor accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Share Offer.

## 10. GENERAL

(i) All communications, notices, Form(s) of Acceptance, share certificates, certificate(s) of Options, transfer receipts (as the case may be), other documents of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the Shareholders and/or the Optionholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, Somerley, and any of their respective agents nor the Registrar or the company secretary of the Company or other parties involved in the Offers accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.

(ii) The provisions set out in relevant Form of Acceptance form part of the terms and conditions of the Offer to which it relates.

(iii) The accidental omission to despatch this Composite Document and/or Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.

(iv) The Offers and all acceptances are governed by and shall be construed in accordance with the laws of Hong Kong.

(v) Due execution of a Form of Acceptance will constitute an authority to the Offeror, Somerley Capital Limited, and such person or persons if any as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the relevant Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares, or cancelling the Options, in respect of which such person or persons has accepted the Offers.

(vi) Acceptance of the Share Offer will be deemed to constitute a warranty by the acceptor(s) to the Offeror that the Shares are sold to the Offeror free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attached to them as at the date of this Composite Document or subsequently becoming attached to them, including the right to the receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offers are made, being the date of despatch of this Composite Document. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited will give, or be subject to, the above representations and warranties.

(vii) References to the Offers in this Composite Document and in the Forms of Acceptance include any extension or revision thereof.

(viii) In making their decision, Independent Shareholders and Independent Optionholders must rely on their own examination of the Offeror, the Group and the terms of the Offers, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance, shall not be construed as legal or business advice on the part of the Offeror, its beneficial owners, the Company, Somerley Capital Limited and Optima Capital. The Independent Shareholders and Optionholders should consult their own professional advisers for professional advice.

(ix) Unless otherwise expressly stated in this Composite Document and/or the relevant Form of Acceptance, no one other than the Offeror and the relevant accepting Shareholder or Optionholder, as the case may be, may enforce any terms of the contract that will arise on delivery of the relevant Form of Acceptance, duly completed and executed, under the Contracts (Rights of Third Parties) Ordinance, Cap. 623 of the Laws of Hong Kong.

(x) The English texts of this Composite Document and the Forms of Acceptance shall prevail over their respective Chinese texts in case of inconsistency.

## 1. FINANCIAL SUMMARY

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31 December 2013, 2014 and 2015 and the unaudited financial results of the Group for the six months ended 30 June 2016, as set out in the relevant annual reports and interim results announcement of the Company.

The auditors of the Company has not issued any qualified opinion on the financial statements of the Group for each of the three years ended 31 December 2013, 2014 and 2015. There were no exceptional items because of size, nature or incidence of the Group for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

**Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income**

| | For the year ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note)* | (Re-presented) | | (Unaudited) |
| **Continuing operations** | | | | |
| Revenue | 2,308,801 | 1,918,510 | 1,640,983 | 387,380 |
| Cost of sales | (1,480,486) | (1,297,566) | (1,143,164) | (314,815) |
| Gross profit | 828,315 | 620,944 | 497,819 | 72,565 |
| Other income | 73,231 | 43,732 | 38,307 | 6,393 |
| Other gains and losses | (51,155) | (47,040) | (349,097) | (27,362) |
| Selling and distribution expenses | (209,721) | (162,188) | (147,682) | (51,537) |
| Administrative expenses | (277,119) | (201,511) | (219,524) | (95,010) |
| Research and development expenses | (95,881) | (83,976) | (76,130) | (43,507) |
| Other expenses | (8,136) | (903) | (892) | (348) |
| Finance costs | (135,145) | (130,276) | (94,016) | (26,222) |
| Share of results of associates | (1,592) | 171 | (1,575) | (1,692) |
| Share of results of a joint venture | (510) | (291) | 1,474 | 4,903 |
| Profit (loss) before taxation | 122,287 | 38,662 | (351,316) | (161,817) |
| Income tax expense | (37,338) | (27,850) | (12,203) | (363) |
| Profit (loss) for the year/period from continuing operations | 84,949 | 10,812 | (363,519) | (162,180) |
| **Discontinued operations** | | | | |
| Profit for the year/period from discontinued operations | – | 35,933 | 217,261 | – |
| Profit (loss) for the year/period | – | 46,745 | (146,258) | (162,180) |
| Other comprehensive income (expense) for the year/period (net of tax) | | | | |
| Items that maybe subsequently reclassified to profit or loss: | | | | |
| Exchange differences arising on translation of foreign operations | 9,389 | 1,524 | (797) | (3,864) |
| Share of translation reserve of a joint venture | (170) | (326) | (261) | 340 |
| | 9,219 | 1,198 | (1,058) | (3,524) |
| Total comprehensive income (expense) for the year/period | 94,168 | 47,943 | (147,316) | (165,704) |
| Profit (loss) for the year/period attributable to: | | | | |
| Owners of the Company | 73,574 | 35,272 | (105,114) | (136,899) |
| Non-controlling interests | 11,375 | 11,473 | (41,144) | (25,281) |
| | 84,949 | 46,745 | (146,258) | (162,180) |
| Total comprehensive income (expense) attributable to: | | | | |
| Owners of the Company | 82,793 | 36,470 | (106,172) | (140,423) |
| Non-controlling interests | 11,375 | 11,473 | (41,144) | (25,281) |
| | 94,168 | 47,943 | (147,316) | (165,704) |
| Earning (loss) per share | | | | |
| From continuing and discontinued operations | | | | |
| Basic and diluted (RMB cents) | 7.17 | 3.44 | (10.24) | (13.34) |
| From continuing operations | | | | |
| Basic and diluted (RMB cents) | 7.17 | 0.75 | (31.06) | (13.34) |

*Note:* 2013 figures are not re-presented for discontinued operations.

No dividend has been declared by the Company for the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016.

**Summary Consolidated Statement of Financial Position**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) |
| Non-current Assets | | | | |
| Property, plant and equipment | 471,037 | 498,295 | 633,423 | 657,381 |
| Deposit for acquisition of property, plant and equipment | 13,848 | 19,573 | 5,223 | 11,500 |
| Prepaid lease payments – non-current portion | 109,669 | 106,899 | 136,315 | 271,417 |
| Intangible assets | 454,031 | 463,060 | 81,810 | 75,357 |
| Goodwill | 141,792 | 141,792 | 8,890 | 8,890 |
| Interests in associates | 24,496 | 24,667 | 23,092 | 21,400 |
| Interest in a joint venture | 4,837 | 4,220 | 5,433 | 10,676 |
| Pledged bank deposits | 473 | 8,727 | 4,731 | 1,216 |
| Deferred tax assets | 36,077 | 45,328 | 32,209 | 46,836 |
| Available-for-sale financial assets | 64,217 | 64,217 | 64,217 | 64,217 |
| Embedded derivative financial asset | 3,954 | 47 | – | – |
| | 1,324,431 | 1,376,825 | 995,343 | 1,168,890 |
| Current Assets | | | | |
| Prepaid lease payments – current portion | 2,770 | 2,770 | 3,434 | 4,033 |
| Inventories | 750,704 | 749,609 | 635,131 | 744,026 |
| Trade and bills receivables | 1,824,813 | 1,846,394 | 1,602,558 | 1,369,999 |
| Other receivables and prepayments | 203,182 | 166,663 | 176,954 | 209,996 |
| Amounts due from customers for contract work | 74,323 | 51,545 | – | – |
| Pledged bank deposits | 140,414 | 110,167 | 73,576 | 43,869 |
| Bank balances and cash | 457,103 | 395,231 | 601,241 | 168,824 |
| | 3,453,309 | 3,322,379 | 3,092,894 | 2,540,747 |
| Current Liabilities | | | | |
| Trade payables | 425,453 | 533,933 | 502,410 | 465,787 |
| Other payables, deposits received and accruals | 492,098 | 329,386 | 302,928 | 241,899 |
| Dividend payable | 4,666 | 6 | 6 | 6 |
| Income tax payable | 25,504 | 4,095 | 12,596 | 12,611 |
| Bank borrowings – due within one year | 397,387 | 346,757 | 283,551 | 444,971 |
| Guaranteed notes – due within one year | – | – | 424,817 | – |
| | 1,345,108 | 1,214,177 | 1,526,308 | 1,165,274 |
| Net Current Assets | 2,108,201 | 2,108,202 | 1,566,586 | 1,375,473 |
| Total Assets less Current Liabilities | 3,432,632 | 3,485,027 | 2,561,929 | 2,544,363 |
| Capital and Reserves | | | | |
| Share capital | 9,548 | 9,548 | 9,548 | 9,548 |
| Share premium and reserves | 1,813,096 | 1,866,458 | 1,763,462 | 1,623,834 |
| Equity attributable to owners of the Company | 1,822,644 | 1,876,006 | 1,773,010 | 1,633,382 |
| Non-controlling interests | 341,330 | 325,996 | 148,171 | 122,890 |
| Total Equity | 2,163,974 | 2,202,002 | 1,921,181 | 1,756,272 |
| Non-current Liabilities | | | | |
| Deferred tax liabilities | 60,968 | 63,294 | 16,640 | 16,640 |
| Bank borrowings – due after one year | – | – | 160,000 | 155,000 |
| Guaranteed notes – due after one year | 1,146,863 | 1,160,804 | 191,358 | 195,949 |
| Long term payable | – | – | 100,000 | 100,000 |
| Deferred income | 60,827 | 58,927 | 172,750 | 320,502 |
| | 1,268,658 | 1,283,025 | 640,748 | 788,091 |
| Total Equity and Non-current Liabilities | 3,432,632 | 3,485,027 | 2,561,929 | 2,544,363 |

## 2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2015

Set out below is the financial information of the Group as extracted from the published audited financial statements of the Group for the year ended 31 December 2015.

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

*For the year ended 31 December 2015*

| | *Note* | **2015** *RMB'000* | **2014** *RMB'000* (Re-presented) *(Note 12)* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | *5* | 1,640,983 | 1,918,510 |
| Cost of sales | | (1,143,164) | (1,297,566) |
| Gross profit | | 497,819 | 620,944 |
| Other income | *7* | 38,307 | 43,732 |
| Other gains and losses | *8* | (349,097) | (47,040) |
| Selling and distribution expenses | | (147,682) | (162,188) |
| Administrative expenses | | (219,524) | (201,511) |
| Research and development expenses | | (76,130) | (83,976) |
| Other expenses | | (892) | (903) |
| Finance costs | *9* | (94,016) | (130,276) |
| Share of results of associates | | (1,575) | 171 |
| Share of results of a joint venture | | 1,474 | (291) |
| (Loss) profit before taxation | | (351,316) | 38,662 |
| Income tax expense | *10* | (12,203) | (27,850) |
| (Loss) profit for the year from continuing operations | *11* | (363,519) | 10,812 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | *12* | 217,261 | 35,933 |
| (Loss) profit for the year | | (146,258) | 46,745 |
| Other comprehensive income (expense) for the year (net of tax) | | | |
| Items that maybe subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | (797) | 1,524 |
| Share of translation reserve of a joint venture | | (261) | (326) |
| | | (1,058) | 1,198 |
| Total comprehensive (expense) income for the year | | (147,316) | 47,943 |
| (Loss) profit for the year attributable to: | | | |
| Owners of the Company | | (105,114) | 35,272 |
| Non-controlling interests | | (41,144) | 11,473 |
| | | (146,258) | 46,745 |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | (106,172) | 36,470 |
| Non-controlling interests | | (41,144) | 11,473 |
| | | (147,316) | 47,943 |
| (Loss) earnings per share | *16* | | |
| From continuing and discontinued operations | | | |
| Basic and diluted (RMB cents) | | (10.24) | 3.44 |
| From continuing operations | | | |
| Basic and diluted (RMB cents) | | (31.06) | 0.75 |

**Consolidated Statement of Financial Position**

*As at 31 December 2015*

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Non-current Assets | | | |
| Property, plant and equipment | 17 | 633,423 | 498,295 |
| Deposit for acquisition of property, plant and equipment | | 5,223 | 19,573 |
| Prepaid lease payments – non-current portion | 18 | 136,315 | 106,899 |
| Intangible assets | 19 | 81,810 | 463,060 |
| Goodwill | 20 | 8,890 | 141,792 |
| Interests in associates | 22 | 23,092 | 24,667 |
| Interest in a joint venture | 23 | 5,433 | 4,220 |
| Pledged bank deposits | 30 | 4,731 | 8,727 |
| Deferred tax assets | 24 | 32,209 | 45,328 |
| Available-for-sale financial assets | 25 | 64,217 | 64,217 |
| Embedded derivative financial asset | 35 | – | 47 |
| | | 995,343 | 1,376,825 |
| Current Assets | | | |
| Prepaid lease payments – current portion | 18 | 3,434 | 2,770 |
| Inventories | 26 | 635,131 | 749,609 |
| Trade and bills receivables | 27 | 1,602,558 | 1,846,394 |
| Other receivables and prepayments | 28 | 176,954 | 166,663 |
| Amounts due from customers for contract work | 29 | – | 51,545 |
| Pledged bank deposits | 30 | 73,576 | 110,167 |
| Bank balances and cash | 31 | 601,241 | 395,231 |
| | | 3,092,894 | 3,322,379 |
| Current Liabilities | | | |
| Trade payables | 32 | 502,410 | 533,933 |
| Other payables, deposits received and accruals | 33 | 302,928 | 329,386 |
| Dividend payable | | 6 | 6 |
| Income tax payable | | 12,596 | 4,095 |
| Bank borrowings – due within one year | 34 | 283,551 | 346,757 |
| Guaranteed notes – due within one year | 35 | 424,817 | – |
| | | 1,526,308 | 1,214,177 |
| Net Current Assets | | 1,566,586 | 2,108,202 |
| Total Assets less Current Liabilities | | 2,561,929 | 3,485,027 |
| Capital and Reserves | | | |
| Share capital | 37 | 9,548 | 9,548 |
| Share premium and reserves | 38 | 1,763,462 | 1,866,458 |
| Equity attributable to owners of the Company | | 1,773,010 | 1,876,006 |
| Non-controlling interests | | 148,171 | 325,996 |
| Total Equity | | 1,921,181 | 2,202,002 |
| Non-current Liabilities | | | |
| Deferred tax liabilities | 24 | 16,640 | 63,294 |
| Bank borrowings – due after one year | 34 | 160,000 | – |
| Guaranteed notes – due after one year | 35 | 191,358 | 1,160,804 |
| Long term payable | 36 | 100,000 | – |
| Deferred income | 39 | 172,750 | 58,927 |
| | | 640,748 | 1,283,025 |
| Total Equity and Non-current Liabilities | | 2,561,929 | 3,485,027 |

**Consolidated Statement of Cash Flows**

*For the year ended 31 December 2015*

| | *Note* | **2015** *RMB'000* | **2014** *RMB'000* |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| (Loss) profit for the year | | (146,258) | 46,745 |
| Adjustments for: | | | |
| Income tax expense for: | | | |
| Continuing operations | | 12,203 | 27,850 |
| Discontinued operations | | 70,696 | 4,820 |
| Share of results of associates | | 1,575 | (171) |
| Share of results of a joint venture | | (1,474) | 291 |
| Finance costs | | 94,130 | 130,383 |
| Early redemption premium of guaranteed notes | | 14,767 | – |
| Depreciation of property, plant and equipment | | 43,669 | 48,225 |
| Prepaid lease payments released | | 3,267 | 2,770 |
| Amortization of intangible assets | | 24,131 | 27,082 |
| Deferred income released to profit or loss | | (3,603) | (12,735) |
| Change in fair value of derivatives | | 47 | 3,907 |
| Loss (gain) on disposal of property, plant and equipment | | 180 | (256) |
| Gain on disposal of a subsidiary | | (269,947) | – |
| Allowance on bad and doubtful debts | | 123,801 | 68,144 |
| Impairment losses on intangible assets | | 119,134 | – |
| Impairment losses on goodwill | | 60,125 | – |
| Interest income | | (3,128) | (3,569) |
| Dividends income earned on available-for-sale financial assets | | – | (777) |
| Foreign exchange losses | | 36,858 | 4,157 |
| Share-based payments expenses | | 3,176 | 1,735 |
| Operating cash flows before movements in working capital | | 183,349 | 348,601 |
| Decrease in inventories | | 38,011 | 1,095 |
| Increase in trade and bills receivables | | (116,367) | (100,685) |
| (Increase) decrease in other receivables and prepayments | | (25,757) | 36,179 |
| Decrease in amounts due from customers for contract work | | 6,594 | 22,778 |
| Increase in trade payables | | 47,096 | 108,480 |
| Increase in deferred income | | 16,680 | 10,835 |
| Decrease in other payables and accruals | | (21,471) | (162,176) |
| Cash generated from operations | | 128,135 | 265,107 |
| Income tax paid | | (32,992) | (60,051) |
| Income tax refunded | | 3,147 | – |
| Net cash generated from operating activities | | 98,290 | 205,056 |

| | Note | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Interest received | | 3,128 | 3,569 |
| Dividend income received | | – | 777 |
| Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment | | (136,823) | (80,678) |
| Increase in prepaid lease payment | | (33,347) | – |
| Development costs paid | | (22,753) | (36,111) |
| Proceeds on disposal of property, plant and equipment | | 185 | 3,202 |
| Net cash inflow on disposal of a subsidiary | *12* | 765,373 | – |
| Transaction cost paid for disposal of a subsidiary | | (6,755) | – |
| Income tax paid for disposal of a subsidiary | | (68,012) | – |
| Receipts of government grants | | 69,946 | – |
| Relocation compensation received | | 30,800 | – |
| Placement of pledged bank deposits | | (86,305) | (40,803) |
| Withdrawal of pledged bank deposits | | 97,747 | 62,796 |
| Net cash generated from (used in) investing activities | | 613,184 | (87,248) |
| FINANCING ACTIVITIES | | | |
| Bank borrowings raised | | 667,009 | 463,564 |
| Repayment of bank borrowings | | (570,215) | (502,894) |
| Long term payable raised | | 100,000 | – |
| Repayment of guaranteed notes including early redemption premium | | (800,403) | – |
| Interest paid | | (93,621) | (121,008) |
| Proceeds from issuance of new guaranteed notes | | 193,074 | – |
| Transaction costs incurred for issue of new guaranteed notes | | (3,475) | – |
| Dividends paid to non-controlling shareholders | | – | (16,310) |
| Net cash used in financing activities | | (507,631) | (176,648) |
| Net increase (decrease) in cash and cash equivalents | | 203,843 | (58,840) |
| Cash and cash equivalents at beginning of the year | | 395,231 | 457,103 |
| Effect of foreign exchange rate changes | | 2,167 | (3,032) |
| Cash and cash equivalents at end of the year | | 601,241 | 395,231 |
| Analysis of the balances of cash and cash equivalents: represented by | | | |
| Bank balances and cash | | 601,241 | 395,231 |

**Consolidated Statement of Changes in Equity**

*For the year ended 31 December 2015*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 (Note 38(i)) | Other reserve RMB'000 (Note 38(ii)) | Statutory surplus reserves RMB'000 (Note 38(iii)) | Contribution from owners RMB'000 | Translation reserve RMB'000 | Share option reserve RMB'000 (Note 38(iv)) | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2014 | 9,548 | 648,367 | 34,666 | 111,954 | 619 | 9,874 | – | 1,007,616 | 1,822,644 | 341,330 | 2,163,974 |
| Profit for the year | – | – | – | – | – | – | – | 35,272 | 35,272 | 11,473 | 46,745 |
| Exchange difference arising on translation of foreign operations | – | – | – | – | – | 1,524 | – | – | 1,524 | – | 1,524 |
| Share of translation reserve of a joint venture *(Note 23)* | – | – | – | – | – | (326) | – | – | (326) | – | (326) |
| Total comprehensive income for the year | – | – | – | – | – | 1,198 | – | 35,272 | 36,470 | 11,473 | 47,943 |
| Appropriations to reserves | – | – | – | 14,176 | – | – | – | (14,176) | – | – | – |
| Dividend declared to non-controlling shareholders of a subsidiary | – | – | – | – | – | – | – | – | – | (11,650) | (11,650) |
| Recognition of equity-settled share-based payments *(Note 46)* | – | – | – | – | – | – | 1,735 | – | 1,735 | – | 1,735 |
| Reclassifications *(Note)* | – | – | – | 39,334 | – | – | – | (24,177) | 15,157 | (15,157) | – |
| At 31 December 2014 | 9,548 | 648,367 | 34,666 | 165,464 | 619 | 11,072 | 1,735 | 1,004,535 | 1,876,006 | 325,996 | 2,202,002 |
| (Loss) profit for the year | – | – | – | – | – | – | – | (105,114) | (105,114) | (41,144) | (146,258) |
| Exchange difference arising on translation of foreign operations | – | – | – | – | – | (797) | – | – | (797) | – | (797) |
| Share of translation reserve of a joint venture *(Note 23)* | – | – | – | – | – | (261) | – | – | (261) | – | (261) |
| Total comprehensive expense income for the year | – | – | – | – | – | (1,058) | – | (105,114) | (106,172) | (41,144) | (147,316) |
| Appropriations to reserves | – | – | – | 60,475 | – | – | – | (60,475) | – | – | – |
| Recognition of equity-settled share-based payments *(Note 46)* | – | – | – | – | – | – | 3,176 | – | 3,176 | – | 3,176 |
| Derecognized on disposal of a subsidiary *(Note 12)* | – | – | – | (43,440) | – | – | – | 43,440 | – | (136,681) | (136,681) |
| At 31 December 2015 | 9,548 | 648,367 | 34,666 | 182,499 | 619 | 10,014 | 4,911 | 882,386 | 1,773,010 | 148,171 | 1,921,181 |

*Note:* As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), before distribution of profit each year, the subsidiaries established in the PRC shall set aside 10% of their profit derived in accordance with the generally accepted accounting principles in the PRC to the statutory surplus reserves. The statutory surplus reserves can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital. Owing to the differences in the articles of association of certain PRC subsidiaries of the Company and the relevant PRC laws, these PRC subsidiaries had not appropriated the statutory reserves amounting to RMB39,334,000 for the profit attributable to the financial year ended before 31 December 2013 and was reclassified in the year ended 31 December 2014 for presentation purpose. In addition, the Company recognized the share of the depreciation and amortization of the revaluation increase in non-current assets on business combination amounting to RMB15,157,000 by the non-controlling interests of certain non-wholly owned subsidiaries to conform with the prior year presentation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

The Company is an exempted company with limited liability incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Its immediate holding company is Consen Group Holding Inc. incorporated in the British Virgin Islands ("BVI") and its ultimate holding company is Consen Investments Holding Inc. incorporated in BVI. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

The activities of its subsidiaries are set out in Note 49.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied, for the first time, certain amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effectively for the current year.

| | |
|---|---|
| Amendments to IAS 19 | Defined Benefit Plans: Employee Contributions |
| Amendments to IFRSs | Annual Improvements to IFRSs 2010-2012 Cycle |
| Amendments to IFRSs | Annual Improvements to IFRSs 2011-2013 Cycle |

The application of the above amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised standards, amendments and interpretation ("new and revised IFRSs") that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 9 | Financial Instruments[1] |
| IFRS 15 | Revenue from Contracts with Customers[1] |
| IFRS 16 | Leases[2] |
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[3] |
| Amendments to IAS 1 | Disclosure Initiative[3] |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortization[3] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle[4] |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants[3] |
| Amendments to IAS 27 | Equity Method in Separate Financial Statements[3] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception[3] |
| Amendments to IAS 7 | Disclosure Initiative[5] |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[5] |

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after 1 January 2016.
[4] Effective for annual periods beginning on or after a date to be determined.
[5] Effective for annual periods beginning on or after 1 January 2017.

The directors of the Company (the "Directors") anticipate that the application of the new and revised IFRSs, other than those set out below, will have no material impact on the consolidated financial statements.

**IFRS 9** ***Financial Instruments***

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described as follows:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the adoption of IFRS 9 in the future may have impact on amounts reported in respect of the Group's available-for-sale financial asset which is currently stated at cost less impairment and will be measured at fair value upon adoption and the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortized costs. Presently, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

**IFRS 15** ***Revenue from Contracts with Customers***

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors are in the process of reviewing the effect of the application of IFRS 15 on the amounts reported and disclosures made in the Group's consolidated financial statements.

**IFRS 16** ***Leases***

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. Given the nature of the Group's operations, it is expected to have impacts on the Group's consolidated financial statements. The Group has not completed its assessment of the full impact of adopting IFRS 16 and therefore the possible impacts on the Group's operating results and financial position have not been quantified.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

During the current year, the Group disposed a major subsidiary (see note 12 for details), as the result the Group re-present the disclosures for prior period presented in the financial statements so that the disclosures relate to the operation that has been discontinued by the end of the reporting period for the latest period presented.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by the non-controlling interests and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that deferred tax assets or liabilities are recognized and measured in accordance with IAS 12 Income Taxes.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation was initially measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

**Investments in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale is accounted for using the equity method.

Upon disposal or partial disposal of the Group's interest in an associate or a joint venture in which the Group lost significant influence or joint control and discontinued the use of equity method, any retained interest that is within the scope of HKAS 39 is measured at fair value on that date, the difference between the carrying amount of the associate or joint venture at the date, and the proceeds from disposing of such interest (or partial interest) in the associate or joint venture and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the Group lost significant influence or joint control over the investee.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement of the previously held interest or the retained interest to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes. When a single transaction requires two or more separate goods or services to be delivered at difference times, revenue is allocated to each identifiable components.

Revenue from system sales is recognized when the system is delivered and accepted by the customers. When the system sales contract includes an identifiable amount for warranty service, that amount is deferred and recognized as revenue over the period during which the service is performed. Service fees received in advance are recorded as deferred income and recognized as service fee income when the services are rendered.

Revenue from sale of goods is recognized when goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. Servicing fees are recognized by reference to the proportion of the total cost of providing the service;

Revenue for provision of maintenance and engineering service is recognized when the services are provided.

Revenue for software sales (that do not involve significant implementation or customization) is recognized when the fee is determinable, collection is probable, and the products are delivered.

The Group's policy for the recognition of revenue from construction services is described in the accounting policy for construction contracts below.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with effects of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

***Buildings under development for future owner-occupied purpose***

When buildings are in the course of development for production or for administrative purposes, the amortization of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use.

**Construction contracts**

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as deposits received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease. Contingent rental arising under operating leases are recognized as an expense in the period in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

***Leasehold land and building***

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payment can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

**Foreign currencies**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency, i.e. RMB).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded as the respective functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

**Retirement benefits costs**

Payments to defined contribution retirement benefits schemes, including state-managed retirement benefits schemes in PRC and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognized as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Intangible assets**

***Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets other than goodwill below).

***Research and development expenditure***

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development or from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any).

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets other than goodwill set out below).

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

**Impairment losses on tangible and intangible assets other than goodwill**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible with finite useful lives assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, directs labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments, of which interest income is included in other income.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bill receivables, other receivables, bank balances and cash as well as pledged bank deposits) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Available-for-sale financial asset*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group classified certain unlisted equity security as available-for-sale financial assets.

For available-for-sale financial equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of counterparty; or
- default or delinquency in settlement of receivables; or
- it becoming probable that the debtors will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial assets is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Company's own equity instruments.

*Other financial liabilities*

Other financial liabilities including bank borrowings, trade payables, other payables, dividend payable, amounts due to a non-controlling shareholder and guaranteed notes are subsequently measured at amortized cost, using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

*Derivative financial instruments*

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

***Derecognition***

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**Equity-settled share-based payment transactions**

***Share options granted to employees***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognized in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

If new share options are granted as replacement for the cancellation of previously granted share options, the grant of replacement share options is accounted for as modifications. The incremental fair value granted, representing the difference between the fair value of the modified/replacement share option and that of the original share option, at the date the modification/replacement is expensed over the remaining vesting period of the share options, in addition to the amount based on the grant date fair value of the original share options.

When the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained profits.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Group's accounting policies, the Directors have made the following estimation with key assumptions at the end of reporting period. The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Estimated impairment of trade and other receivables**

Trade receivables and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit and loss when there is objective evidence that the asset is impaired.

In making the estimates, management considered detailed procedures have been in place to monitor this risk. In estimating whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. When there is objective evidence of impairment loss, the

Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the aggregate carrying amount of trade and other receivables (net of allowance for doubtful debts), was approximately RMB1,479,686,000 (2014: RMB1,655,004,000). Details of movements of allowance for trade receivables and other receivables are disclosed in Notes 27 and 28 respectively.

**Indefinite useful life of trademarks**

The trademarks are classified as indefinite-lived intangible assets and supported by the fact that trademarks are capable of being renewed indefinitely by the government of PRC upon its expiration at insignificant cost. Based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely. The Group re-evaluates the useful life of trademarks each year to determine whether events and circumstances continue to support the view of indefinite useful life for these assets. The useful life of trademarks could be impacted as a result of the railway accident occurred due to the railway safety equipment manufactured by the Company's subsidiaries.

As at 31 December 2015, the carrying amount of trademarks with indefinite useful lives was RMB23,827,000 (2014: RMB85,749,000). Details of the recoverable amount calculation are disclosed in Note 21.

**Useful lives of license**

The Group's management determines the useful lives and related amortization of the license. This estimate is based on the useful lives of the license of similar nature and functions. It could change significantly as a result of changes admission policy of China Railway Corporation (the former Ministry of Railways of the PRC) and the railway accident occurred due to the railway safety equipment manufactured by the Company's subsidiaries. Management will increase the amortization where useful lives are less than previously estimated, or it will write-off the carrying amount. The subsequent reversal of the impairment loss resulting from change in the conditions relevant to the impairment may also have significant impact on the financial results and position of the Group.

As at 31 December 2015, the railway licenses included in the intangible assets was fully impaired (2014: Carrying amount of RMB235,040,000). Details of the recoverable amount calculation and impairments are disclosed in Note 21.

**Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year, an impairment loss on goodwill of RMB60,125,000 (2014: nil) was recognized. Details of the recoverable amount calculation and impairments are disclosed in Note 21. As at 31 December 2015, the carrying amount of goodwill is RMB8,890,000 (2014: RMB141,792,000).

**5. REVENUE**

An analysis of the Group's revenue relating to continuing operations for the current and prior years is as follows:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Continuing operations | | |
| Sales of goods | | |
| System sales | 571,534 | 767,128 |
| Trading of equipment | 25,637 | 79,828 |
| Software sales | 79,443 | 86,032 |
| Industrial control valves sales | 628,238 | 598,076 |
| | 1,304,852 | 1,531,064 |
| Provision of service | | |
| Provision of maintenance and engineering services | 252,060 | 256,338 |
| Design and consulting services | 84,071 | 131,108 |
| | 1,640,983 | 1,918,510 |

**6. SEGMENT INFORMATION**

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Operating Management Committee (the "CODM"), in order to allocate resources to the segments and to assess their performance.

The information reported to the CODM for the purposes of resource allocation and performance assessment focuses more specifically on the category of customer. The principal categories of customers are petrochemical and railway. No operating segments identified by the CODM have been aggregated in arriving at the reportable segment of the Group. The Group's operating segments are identified and relevant information is presented below:

Petrochemical – integration and sales of safety and critical control systems, trading of equipment, provision of maintenance and engineering services, design and consulting services and sales of software products for the petrochemical, chemical, oil and gas, biodiesel and coal chemical industries, manufacture of industrial control valves.

Railway – integration and sales of traction systems, auxiliary electricity supply systems and industrial signalling systems, trading of equipment, provision of maintenance and engineering services for the railway industry.

**Segment revenues and results**

Owing to the disposal of the discounted operations set out in Note 12, the segment information for 2014 and 2015 has only included the Group's revenue and results from continuing operations but there are no change in the reportable and operating segments. The details of the segment revenue and results are as follows:

**2015**

| | Petrochemical | Railway | Consolidated |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | 1,450,188 | 190,795 | 1,640,983 |
| Segment loss before tax | (52,560) | (163,015) | (215,575) |
| Income tax expense | (17,843) | 5,640 | (12,203) |
| Segment loss | (70,403) | (157,375) | (227,778) |
| Unallocated other income | | | 4 |
| Unallocated other gains and losses | | | (51,672) |
| Unallocated administrative expenses | | | (11,966) |
| Unallocated finance costs | | | (72,107) |
| Loss for the year from continuing operations | | | (363,519) |

**2014**

| | Petrochemical | Railway | Consolidated |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | 1,624,576 | 293,934 | 1,918,510 |
| Segment profit before tax | 148,282 | 9,794 | 158,076 |
| Income tax expense | (25,238) | (2,612) | (27,850) |
| Segment profit | 123,044 | 7,182 | 130,226 |
| Unallocated other income | | | 9 |
| Unallocated other gains and losses | | | (5,705) |
| Unallocated administrative expenses | | | (12,983) |
| Unallocated finance costs | | | (100,735) |
| Profit for the year from continuing operations | | | 10,812 |

All of the segment revenue reported above is from external customers. There were no inter-segment sales in the current year (2014: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the post-tax profit earned by each segment without allocation of central administrative expenses, interest income, other gains and losses, as well as finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Segment assets** | | |
| Petrochemical | 3,167,150 | 2,928,133 |
| Railway | 678,544 | 1,699,028 |
| Total segment assets | 3,845,694 | 4,627,161 |
| Other assets | 242,543 | 72,043 |
| Consolidated assets | 4,088,237 | 4,699,204 |
| **Segment liabilities** | | |
| Petrochemical | 1,183,360 | 768,856 |
| Railway | 345,244 | 546,499 |
| Total segment liabilities | 1,528,604 | 1,315,355 |
| Guaranteed notes | 616,175 | 1,160,804 |
| Other liabilities | 22,277 | 21,043 |
| Consolidated liabilities | 2,167,056 | 2,497,202 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than unallocated corporate assets, mainly included bank balances and cash, property, plant and equipment and intangible assets.

- all liabilities are allocated to operating segments other than unallocated corporate liabilities, mainly include other payables, dividend payable, guaranteed notes and bank borrowings.

The decrease in the railway segment assets and liabilities as at 31 December 2015 is mainly attributable to the disposal of a subsidiary as set out in Note 12.

**Other segment information**

Amounts included in the measure of segment (loss) profit relating to continuing operations or segment assets:

**2015**

| | Petrochemical | Railway | Unallocated | Consolidated |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Interests in associates | 23,092 | – | – | 23,092 |
| Interests in a joint venture | – | 5,433 | – | 5,433 |
| Depreciation and amortization | 49,287 | 12,901 | 2 | 62,190 |
| Release of prepaid lease payment | 2,383 | 397 | 487 | 3,267 |
| (Loss) gain on disposal of property, plant and equipment | (6) | 186 | – | 180 |
| Impairment losses on trade receivables | 110,823 | 13,636 | – | 124,459 |
| Impairment losses on intangible assets | 25,774 | 93,360 | – | 119,134 |
| Impairment losses on goodwill | – | 60,125 | – | 60,125 |
| Share of loss of associates | 1,575 | – | – | 1,575 |
| Share of profit of a joint venture | – | 1,474 | – | 1,474 |
| Interest income | 2,660 | 311 | 4 | 2,975 |
| Interest expense | 8,904 | 13,005 | 72,107 | 94,016 |

**2014**

| | Petrochemical | Railway | Unallocated | Consolidated |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Interests in associates | 24,667 | – | – | 24,667 |
| Interests in a joint venture | – | 4,220 | – | 4,220 |
| Depreciation and amortization | 50,357 | 10,557 | 3 | 60,917 |
| Release of prepaid lease payment | 1,886 | 397 | 487 | 2,770 |
| Gain on disposal of property, plant and equipment | 226 | – | – | 226 |
| Impairment losses (reversal) on trade and other receivables recognized in profit or loss | 34,393 | (3,547) | – | 30,846 |
| Share of profit of associates | 171 | – | – | 171 |
| Share of loss of a joint venture | – | 291 | – | 291 |
| Interest income | 1,939 | 673 | 9 | 2,621 |
| Interest expense | 25,554 | 3,987 | 100,735 | 130,276 |

**Geographical information**

The Group operates principally in the PRC (including Hong Kong), and overseas countries (mainly including the United States of America (the "USA"), Japan and Singapore).

Information about the Group's revenue from external customers is presented based on the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

| | **Revenue from external customers** | | **Non-current assets** *(Note)* | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| PRC | 1,555,857 | 1,800,482 | 861,677 | 1,225,170 |
| Overseas countries | 85,126 | 118,028 | 3,984 | 4,449 |
| | 1,640,983 | 1,918,510 | 865,661 | 1,229,619 |

*Note:* Non-current assets excluded interests in associates and joint venture, financial instruments and deferred tax assets.

**Revenue by products and services**

The Group's revenue analyzed by goods or services are set out in Note 5.

**Information about major customers**

Revenue from the customer of the corresponding years contributed over 10% of the total revenue relating to continuing operations of the Group is as follows:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Petrochemical – Customer A | 236,710 | Note |
| Petrochemical – Customer B | 166,326 | 197,102 |

*Note:* For the year ended 31 December 2014, customer A contributed less than 10% of the total revenue relating to continuing operations of the Group.

## 7. OTHER INCOME

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Continuing operations | | |
| Bank interest income | 2,975 | 2,621 |
| Dividends income earned on available-for-sale financial assets | – | 777 |
| Value added tax ("VAT") refund *(Note i)* | 11,986 | 17,397 |
| Government grant *(Note ii)* | 21,873 | 19,622 |
| Others | 1,473 | 3,315 |
| | 38,307 | 43,732 |

*Notes:*

(i) The amount represents the VAT refund from local tax bureau in accordance with the preferential policy on VAT of software manufacturers.

(ii) Other than the deferred income released to profit or loss as set out in Note 39, government grants mainly include the government subsidies received by the Company's subsidiaries from relevant government bodies in connection with expenses on technology development. All government grants were recognized at the time the grants are receivable and the corresponding expenses has already been incurred and recognized in the profit or loss.

## 8. OTHER GAINS AND LOSSES

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Continuing operations | | |
| Net foreign exchange loss *(Note)* | (30,385) | (12,513) |
| (Loss) gain on disposal of property, plant and equipment | (180) | 226 |
| Loss on embedded derivative financial asset *(Note 35)* | (47) | (3,907) |
| Early redemption premium of guaranteed notes *(Note 35)* | (14,767) | – |
| Allowance for bad and doubtful debts | (124,459) | (30,846) |
| Impairment losses recognized on intangible assets | (119,134) | – |
| Impairment losses recognized on goodwill | (60,125) | – |
| | (349,097) | (47,040) |

*Note:* The amount includes exchange loss relating to the translation of guaranteed notes from United States Dollar ("US$") to RMB amounting to RMB39,822,000 during the current year (2014: RMB4,212,000) (Note 35).

## 9. FINANCE COSTS

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Continuing operations | | |
| Interest on bank borrowings | 22,550 | 29,659 |
| Interest on guaranteed notes | 72,107 | 100,617 |
| | 94,657 | 130,276 |
| Less: Amount capitalized under construction in progress | (641) | – |
| | 94,016 | 130,276 |

During the current year, interests capitalized of RMB459,000 arose from bank borrowings specifically for the purpose of obtaining qualifying assets with a capitalization rate of 5.70% per annum. In addition, the remaining borrowing cost capitalized of RMB182,000 arose from the pool of general borrowings calculated by applying a weighted average capitalization rate of 5.35% per annum to expenditure on qualifying assets.

No interest was capitalized during the prior year.

## 10. INCOME TAX EXPENSES

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Continuing operations | | |
| Current tax charge of continuing operations comprises: | | |
| PRC enterprise income tax | 34,959 | 29,039 |
| Hong Kong Profits Tax | 2,261 | – |
| Other jurisdictions | 3 | 4 |
| | 37,223 | 29,043 |
| Deferred tax credit *(Note 24)* | (25,020) | (1,193) |
| | 12,203 | 27,850 |

PRC enterprise income tax is calculated at 25% of the estimated assessable profit of the Company's subsidiaries located in the PRC as determined in accordance with relevant tax rules and regulations in the PRC for both years, except for certain subsidiaries which enjoyed tax rate substantially lower than 25% due to relevant incentive policies.

Certain subsidiaries of the Company operating in the PRC are eligible for tax holiday and concession. The tax holiday and concession are in the form of two years tax exemption from the first profit-making year, followed by 50% reduction of the applicable tax rate in the following three years.

During the current year, Beijing Hengtai Rixin Software Technology Company Limited ("Beijing Hengtai") and Ningxia Fei Mai Sen Process Control Technology Company Limited ("Ningxia Fei Mai Sen") are both under the second year of 50% tax reduction at a tax rate of 12.5%.

Certain subsidiaries of the Company are qualified as "High and New Tech Enterprises", which are subject to PRC enterprise income tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years and the subsidiaries are eligible to apply the tax concession again upon expiry of the three-year period.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Taxation arising in the jurisdictions other than the PRC and Hong Kong is calculated at rates prevailing in the relevant jurisdictions.

The income tax charge for continuing operations for the current and prior years can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| (Loss) profit before taxation from continuing operations | (351,316) | 38,662 |
| Tax at the PRC income tax rate of 25% (2014: 25%) | (87,829) | 9,666 |
| Tax effect of: | | |
| Share of results of associates | 394 | (43) |
| Share of results of a joint venture | (369) | 73 |
| Dividends income earned on available-for-sale financial assets | – | (160) |
| Expenses not deductible for tax purpose | 35,734 | 30,567 |
| Income not taxable for tax purpose | (8,780) | (6,979) |
| Impairment losses on goodwill that are not deductible | 15,031 | – |
| Tax losses not recognized | 39,788 | 16,378 |
| Utilization of tax losses previously not recognized | (778) | – |
| Deductible temporary differences not recognized | 22,345 | 9,404 |
| Different jurisdictions tax rates of subsidiaries | (1,179) | – |
| Tax benefit granted to certain PRC subsidiaries | (6,152) | (32,856) |
| Withholding tax on undistributed earnings of PRC subsidiaries | – | 1,800 |
| Intra-group re-organization by transfer of equity interest of a PRC subsidiary | 3,998 | – |
| Tax charge for the year for continuing operations | 12,203 | 27,850 |

Under the PRC tax law, withholding tax of 5% is imposed on dividends declared to foreign investors in respect of profit earned by the PRC subsidiaries from 1 January 2008 onward. Starting from 1 January 2011, certain profits generated by the relevant PRC subsidiaries will be distributed to its foreign investor and as such, deferred tax liability in this respect was provided for accordingly in the consolidated financial statements of the Group for the current year to the extent that such earnings are estimated by the Directors to be distributed in the foreseeable future.

The aggregate amount of temporary differences associated with undistributed earnings of the PRC subsidiaries for which deferred tax liabilities have not been recognized amounted to approximately RMB994,404,000 (2014: RMB965,058,000) because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 11. (LOSS) PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

(Loss) profit for the year from continuing operations has been arrived at after charging the following items:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Depreciation of property, plant and equipment | 41,484 | 41,789 |
| Amortization of intangible assets included in | | |
| – Administrative expenses | 7,787 | 7,787 |
| – Cost of sales | 12,919 | 11,341 |
| | 20,706 | 19,128 |
| Total depreciation and amortization | 62,190 | 60,917 |
| Auditors' remuneration | 3,322 | 3,275 |
| Release of prepaid lease payments | 3,267 | 2,770 |
| Operating leases payments in respect of rented premises | 18,089 | 17,404 |
| Staff costs (including directors' emoluments in Note 13): | | |
| Salaries and other benefits | 320,020 | 290,116 |
| Retirement benefits scheme contributions | 20,826 | 19,527 |
| Equity-settled share-based payments | 3,176 | 1,735 |
| Total staff cost | 344,022 | 311,378 |

## 12. DISCONTINUED OPERATIONS

On 26 May 2015, the Group completed the disposal of its 76.7% equity interest in Beijing Jiaoda Microunion Technology Company Limited ("Beijing Jiaoda Microunion") at a cash consideration of RMB811,650,000. Beijing Jiaoda Microunion engages in the design, development and sales of railway signalling systems in the PRC.

The results of the discontinued operations included in the profit for the reporting period are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

| | Period from 1 January 2015 to 26 May 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Profit for the period from discontinued operations | | |
| Revenue | 67,949 | 299,475 |
| Cost of sales | (33,715) | (159,254) |
| Gross profit | 34,234 | 140,221 |
| Other income | 9,681 | 23,232 |
| Other gains and losses | 658 | (37,273) |
| Selling and distribution expenses | (3,804) | (11,324) |
| Administrative expenses | (14,797) | (54,936) |
| Research and development expenses | (6,282) | (18,960) |
| Other expenses | (1,566) | (100) |
| Finance costs | (114) | (107) |
| Profit before taxation | 18,010 | 40,753 |
| Income tax expenses: | | |
| Current tax | (1,656) | (10,552) |
| Deferred tax | (1,028) | 5,732 |
| Profit for the period | 15,326 | 35,933 |
| Gain recognized on disposal of a subsidiary | 269,947 | – |
| Attributable income tax expense | (68,012) | – |
| Profit for the period from discontinued operations | 217,261 | 35,933 |
| Profit for the period from discontinued operations attributable to owners of the Company | 213,690 | 27,561 |
| Profit for the period from discontinued operations have been derived after charging (crediting): | | |
| Finance costs | 114 | 107 |
| Depreciation of property, plant and equipment | 2,185 | 6,436 |
| Amortization of intangible assets | 3,425 | 7,954 |
| Gain on disposal of property, plant and equipment | – | (30) |
| (Reversal) allowance on bad and doubtful debts | (658) | 37,298 |
| Interest income | (153) | (948) |
| Cash flows from discontinued operations | | |
| Net cash inflows from operating activities | 1,872 | 21,185 |
| Net cash outflows from investing activities | (20,412) | (18,513) |
| Net cash outflows from financing activities | (47,412) | (51,707) |
| Net cash outflows | (65,952) | (49,035) |

The assets and liabilities of Beijing Jiaoda Microunion derecognized at the date of disposal were as follows:

| | RMB'000 |
|---|---|
| Non-current Assets | |
| Property, plant and equipment | 8,681 |
| Intangible assets | 260,738 |
| Deferred tax assets | 24,961 |
| | 294,380 |
| Current Assets | |
| Inventories | 76,467 |
| Trade and bills receivables | 236,402 |
| Other receivables and prepayments | 15,466 |
| Amounts due from customers for contract work | 44,951 |
| Pledged bank deposits | 29,145 |
| Bank balances and cash | 46,277 |
| | 448,708 |
| Current Liabilities | |
| Trade and bills payables | 78,619 |
| Other payables, deposits received and accruals | 42,817 |
| Income tax payable | 533 |
| | 121,969 |
| Non-current Liabilities | |
| Deferred tax liabilities | 34,504 |
| Net assets disposed of | 586,615 |
| Gain on disposal of a subsidiary | |
| Consideration received | 811,650 |
| Net assets disposed of | (586,615) |
| Non-controlling interests | 136,681 |
| Goodwill derecognized on the disposal | (72,777) |
| Transaction cost of the disposal | (18,992) |
| Gain on the disposal before taxation | 269,947 |
| Net cash inflow on disposal of a subsidiary | |
| Consideration received | 811,650 |
| Less: cash and cash equivalent balances disposed of | (46,277) |
| | 765,373 |

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to the Directors and the chief executive were as follows:

**2015**

| | Directors' fees *RMB'000* | Salaries and other benefits *RMB'000* | Contributions to retirement benefits scheme *RMB'000* | Performance related incentive payments *RMB'000* | Equity-settled share-based payments *RMB'000* | Total emoluments *RMB'000* |
|---|---|---|---|---|---|---|
| Executive directors | | | | | | |
| Mr. Xuan Rui Guo *(Note)* | – | 895 | 40 | – | 96 | 1,031 |
| Mr. Kuang Jian Ping | – | 527 | 8 | – | 136 | 671 |
| Mr. Huang Zhi Yong | – | 495 | 8 | – | 136 | 639 |
| Sub-total | – | 1,917 | 56 | – | 368 | 2,341 |
| Independent non-executive directors | | | | | | |
| Mr. Wang Tai Wen | 146 | – | – | – | 6 | 152 |
| Mr. Ng Wing Fai | 195 | – | – | – | 6 | 201 |
| Mr. Sui Yong Bin | 146 | – | – | – | – | 146 |
| Sub-total | 487 | – | – | – | 12 | 499 |
| Total | 487 | 1,917 | 56 | – | 380 | 2,840 |

**2014**

| | Directors' fees *RMB'000* | Salaries and other benefits *RMB'000* | Contributions to retirement benefits scheme *RMB'000* | Performance related incentive payments *RMB'000* | Equity-settled share-based payments *RMB'000* | Total emoluments *RMB'000* |
|---|---|---|---|---|---|---|
| Executive directors | | | | | | |
| Mr. Xuan Rui Guo *(Note)* | – | 1,511 | 34 | 1,397 | 52 | 2,994 |
| Mr. Kuang Jian Ping | – | 1,451 | 34 | 1,397 | 74 | 2,956 |
| Mr. Huang Zhi Yong | – | 1,451 | 34 | 1,397 | 74 | 2,956 |
| Sub-total | – | 4,413 | 102 | 4,191 | 200 | 8,906 |
| Independent non-executive directors | | | | | | |
| Mr. Wang Tai Wen | 142 | – | – | – | 3 | 145 |
| Mr. Ng Wing Fai | 189 | – | – | – | 3 | 192 |
| Mr. Sui Yong Bin | 142 | – | – | – | – | 142 |
| Sub-total | 473 | – | – | – | 6 | 479 |
| Total | 473 | 4,413 | 102 | 4,191 | 206 | 9,385 |

*Note:* Mr. Xuan Rui Guo is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered as Chief Executive.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The performance related incentive payments are determined by the Company's board of directors and should not be more than 5% of the profit attributable to owners of the Company for the relevant financial year.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

During either year, no emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. Neither the chief executive nor any of the Directors waived any emoluments during either year.

**14. EMPLOYEES' EMOLUMENTS**

The emoluments of the five highest paid individuals included none of the Directors (2014: three) for the year ended 31 December 2015, whose emoluments are disclosed in Note 13 above. The emoluments of the five (2014: the remaining two) highest paid individuals for the current and prior years are as follows:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Salaries and other benefits | 5,459 | 1,996 |
| Contributions to retirement benefits scheme | 390 | 129 |
| Performance related incentive payments | 1,821 | 3,437 |
| Equity-settled share-based payments | 124 | 14 |
| | 7,794 | 5,576 |

Their emoluments were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2015** | **2014** |
| HK$1,500,001 to HK$2,000,000 | 3 | – |
| HK$2,000,001 to HK$2,500,000 | 2 | – |
| HK$2,500,001 to HK$3,000,000 | – | 1 |
| HK$4,000,001 to HK$4,500,000 | – | 1 |

**15. DIVIDENDS**

No interim dividends have been declared in the current year.

The Directors do not recommend the payment of dividend for the year ended 31 December 2015 (2014: Nil).

**16. (LOSS) EARNINGS PER SHARE**

| | 2015 | 2014 |
|---|---|---|
| | *RMB Cents* | *RMB Cents* |
| Basic/diluted (loss) earnings per share | | |
| From continuing operations | (31.06) | 0.75 |
| From discontinued operations | 20.82 | 2.69 |
| Total basic/diluted (loss) earnings per share | (10.24) | 3.44 |

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

**(Loss) earnings**

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Attributable to the owners of the Company: | | |
| (Loss) profit for the year | (105,114) | 35,272 |
| Less: Profit for the year from discontinued operations | (213,690) | (27,561) |
| (Loss) earnings used for the purposes of basic and diluted (loss) earnings per share from continuing operations | (318,804) | 7,711 |

**Weighted average number of shares**

| | 2015 | 2014 |
|---|---|---|
| | *'000 shares* | *'000 shares* |
| Number of ordinary shares for the purpose of basic earnings per share | 1,026,264 | 1,026,264 |

The calculation of diluted earnings per share for both the current and prior years did not take into account the share options of the Company issued on 24 July 2014 (Note 46) because the exercise price of these share options has been higher than the average market price of the Company's shares since the date of grant of these options on 25 July 2014.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvements | Fixtures and electronic equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **COST** | | | | | | |
| At 1 January 2014 | 282,872 | 13,058 | 194,635 | 41,859 | 69,794 | 602,218 |
| Additions | 777 | 424 | 12,933 | 2,623 | 61,672 | 78,429 |
| Transfers | 107,413 | – | 9,692 | – | (117,105) | – |
| Disposals | – | – | (3,700) | (1,780) | – | (5,480) |
| At 31 December 2014 | 391,062 | 13,482 | 213,560 | 42,702 | 14,361 | 675,167 |
| Additions | 4,354 | 912 | 61,714 | 1,311 | 119,552 | 187,843 |
| Transfers | 4,690 | – | 9,960 | – | (14,650) | – |
| Disposals | – | – | (2,451) | (542) | – | (2,993) |
| Derecognized on disposal of a subsidiary | – | (5,030) | (19,139) | (11,708) | – | (35,877) |
| At 31 December 2015 | 400,106 | 9,364 | 263,644 | 31,763 | 119,263 | 824,140 |
| **DEPRECIATION** | | | | | | |
| At 1 January 2014 | 24,739 | 10,516 | 69,280 | 26,646 | – | 131,181 |
| Provided for the year | 11,880 | 1,613 | 30,247 | 4,485 | – | 48,225 |
| Disposals | – | – | (1,172) | (1,362) | – | (2,534) |
| At 31 December 2014 | 36,619 | 12,129 | 98,355 | 29,769 | – | 176,872 |
| Provided for the year | 14,154 | 195 | 25,893 | 3,427 | – | 43,669 |
| Disposals | – | – | (2,204) | (424) | – | (2,628) |
| Eliminated on disposal of a subsidiary | – | (4,838) | (13,279) | (9,079) | – | (27,196) |
| At 31 December 2015 | 50,773 | 7,486 | 108,765 | 23,693 | – | 190,717 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2015 | 349,333 | 1,878 | 154,879 | 8,070 | 119,263 | 633,423 |
| At 31 December 2014 | 354,443 | 1,353 | 115,205 | 12,933 | 14,361 | 498,295 |

Property, plant and equipment except for construction in process are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 3% |
| Leasehold improvements | 20% |
| Fixtures and electronic equipment | 10% – 20% |
| Motor vehicles | 20% |

The buildings of the Group are located on land in the PRC. As of 31 December 2015, a building with a carrying value of RMB102,309,000 is in the process of obtaining property certificates (2014: RMB105,711,000).

Details of property, plant and equipment pledged are set out in Note 42.

**18. PREPAID LEASE PAYMENTS**

Movements in the lease prepayments, which represent land use rights with the lease terms of 40 to 50 years in PRC, during the year are analyzed as follows:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **CARRYING AMOUNT** | | |
| At 1 January | 109,669 | 112,439 |
| Addition | 33,347 | – |
| Released to profit or loss | (3,267) | (2,770) |
| At 31 December | 139,749 | 109,669 |
| Analyzed for reporting purpose as: | | |
| Non-current asset | 136,315 | 106,899 |
| Current asset | 3,434 | 2,770 |
| | 139,749 | 109,669 |

Details of land use rights pledged are set out in Note 42.

## 19. INTANGIBLE ASSETS

| | Trademarks | Development costs | Licenses | Patents | Non-patented technologies | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* *(Note)* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **COST** | | | | | | |
| At 1 January 2014 | 85,749 | 93,693 | 291,082 | 22,546 | 35,550 | 528,620 |
| Additions | – | 36,111 | – | – | – | 36,111 |
| At 31 December 2014 | 85,749 | 129,804 | 291,082 | 22,546 | 35,550 | 564,731 |
| Additions | – | 22,753 | – | – | – | 22,753 |
| Derecognized on disposal of a subsidiary | (61,922) | (49,970) | (190,002) | – | – | (301,894) |
| At 31 December 2015 | 23,827 | 102,587 | 101,080 | 22,546 | 35,550 | 285,590 |
| **AMORTIZATION AND IMPAIRMENT** | | | | | | |
| At 1 January 2014 | – | 17,447 | 45,476 | 9,000 | 2,666 | 74,589 |
| Amortization expense | – | 9,174 | 10,566 | 3,787 | 3,555 | 27,082 |
| At 31 December 2014 | – | 26,621 | 56,042 | 12,787 | 6,221 | 101,671 |
| Amortization expense | – | 10,201 | 6,872 | 3,503 | 3,555 | 24,131 |
| Impairment losses recognized in profit or loss | – | 27,221 | 66,139 | – | 25,774 | 119,134 |
| Eliminated on disposal of a subsidiary | – | (13,183) | (27,973) | – | – | (41,156) |
| At 31 December 2015 | – | 50,860 | 101,080 | 16,290 | 35,550 | 203,780 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2015 | 23,827 | 51,727 | – | 6,256 | – | 81,810 |
| At 31 December 2014 | 85,749 | 103,183 | 235,040 | 9,759 | 29,329 | 463,060 |

*Note:* Development costs capitalized are internally generated.

The intangible assets, other than the trademarks which do not have finite useful lives and are stated at cost less impairment, are amortized on a straight-line basis based over the estimated useful lives as follows:

| **Category** | **Estimated useful lives** |
|---|---|
| Development costs | 5 years |
| Licenses | 2.5 – 30 years |
| Patents | 5 – 15 years |
| Non-patented technologies | 10 years |

The trademarks have a legal life of 10 years but are renewable every 10 years at minimal cost. The Directors are of the opinion that the Group would renew the trademarks continuously and have the ability to do so. Various studies including product stability and security studies, market and admission policy trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks have no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group.

As a result, the trademarks are considered by the Directors as having an indefinite useful life. They will be tested for impairment annually and whenever there are indications that they may be impaired. Particulars of the impairment testing are disclosed in Note 21.

**Impairment losses recognized in the year**

During the current year, the declines in crude oil prices brought cost pressure to the biodiesel related non-patented technologies. These assets are used in the Group's petrochemical reportable segment and considered to be fully impaired. An impairment loss of RMB25,774,000 was recognized in the profit or loss.

In performing the annual impairment review for goodwill and intangible assets, impairment losses amounting to RMB27,221,000 and RMB66,139,000 for development costs and licenses, respectively, were recognized to the profit or loss. Details of these impairment losses are set out in Note 21.

The total impairment losses on intangible assets amounting to RMB119,134,000 have been included in "other gains and losses" (Note 8).

## 20. GOODWILL

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cost of goodwill | 141,792 | 141,792 |
| Impairment losses recognized in profit or loss | (60,125) | – |
| Eliminated on disposal of a subsidiary *(Note 12)* | (72,777) | – |
| Carrying amount at end of year | 8,890 | 141,792 |

## 21. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS

For the purpose of impairment testing, the carrying amounts of goodwill and trademarks with indefinite useful lives have been allocated to five CGUs as follows, including three (2014: four) subsidiaries engaged in railway segment and three (2014: three) subsidiaries engaged in petrochemical segment.

| | Goodwill | | Trademarks | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Railway** | | | | |
| – Beijing Jiaoda Microunion (Unit A) | – | 72,777 | – | 61,922 |
| – Beijing Consen Transportation Technology Company Limited ("Beijing Transportation") (Unit A) | – | 3,397 | – | – |
| – Nanjing Huashi Electronic Scientific Company Limited ("Nanjing Electronic Scientific") (Unit B) | – | 39,695 | – | – |
| – Nanjing Huashi Power Equipment Co., Ltd. ("Nanjing Power Equipment") (Unit B) | – | 17,033 | – | – |
| **Petrochemical** | | | | |
| – Tri-sen Systems Corporation (Unit C) | – | – | 546 | 546 |
| – Beijing Haidian Zhongjing Engineering Design and Software Technology Company Limited ("Zhongjing") (Unit D) | 8,890 | 8,890 | – | – |
| – Wuzhong Instrument Company Limited ("Wuzhong") (Unit E) | – | – | 23,281 | 23,281 |
| Total | 8,890 | 141,792 | 23,827 | 85,749 |

The recoverable amount is determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the Directors covering a 5-year period and the following assumptions:

| | Discount rate | | Annual revenue growth rate for 5-year budget period *(note)* | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Unit A | 15.0% | 16.2% | 5% | 8% |
| Unit B | 14.4% | 15.2% | 8% | 15% |
| Unit C | 11.8% | 12.8% | 15% | 25% |
| Unit D | 14.7% | 16.1% | 5% | 5% |
| Unit E | 13.9% | 15.4% | 10% | 10% |

*Note:* The cash flows of the respective CGUs beyond the five-year period are extrapolated using a steady growth rate of 3% (2014: 3%). The growth rates are based on the relevant industry forecasts and do not exceed the industry average long-term growth rates.

Another key assumption for the value in use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance.

**Unit A**

This unit comprises Beijing Jiaoda Microunion and Beijing Transportation. Beijing Jiaoda Microunion is a licensed and major supplier of urban railway signalling system products in the PRC, while Beijing Transportation operates in the non-public industrial railway markets. The two companies shared similar technology backgrounds and pool of talents which brought operating synergy to the Group. During the year, the Group completed the very substantial disposal of Beijing Jiaoda Microunion (Note 12).

Owing to the continuing losses incurred by Beijing Transportation, the Directors estimate there is no recoverable amount for Unit A as at 31 December 2015 and accordingly, the excess carrying amount of the non-current assets directly related to Unit A amounting to RMB30,618,000 was considered to be impaired and recognized in the profit or loss during the year.

**Unit B**

With the slowdown in tendering of rolling stock projects by China Railway Corporation following the merger of CSR Corporation Limited and CNR Corporation Limited, the Group's railway auxiliary electricity supply system business have been deferred resulting in low revenue in the current year. Moreover, the trial loading tests for the new traction system products have been postponed several times during the year without a given timeline from the regulatory authorities.

Considering the aforesaid factors, the Directors estimate the recoverable amount of Unit B as at 31 December 2015 to be approximately RMB166,820,000 and accordingly, the excess carrying amount of the non-current assets directly related to Unit B amounting to RMB122,867,000 was considered to be impaired and recognized in the profit or loss during the year.

The Directors believe that any reasonably possible change in any of the assumptions would not cause the carrying amount of Unit C, Unit D and Unit E to exceed its recoverable amount and accordingly, no impairment is recognized for the non-current assets directly related to Unit C, Unit D and Unit E.

The details of the impairment losses recognized for the non-current assets at 31 December 2015 in "other gains and losses" as set out in Note 8 are as follows:

| | **Goodwill** | **Development costs** | **Licenses** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Unit A | 3,397 | 27,221 | – | 30,618 |
| Unit B | 56,728 | – | 66,139 | 122,867 |
| Impairment losses | 60,125 | 27,221 | 66,139 | 153,485 |

## 22. INTERESTS IN ASSOCIATES

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cost of investments in associates | 26,041 | 46,193 |
| Share of post-acquisition loss and other comprehensive income, net of dividends received | (2,949) | (21,526) |
| | 23,092 | 24,667 |

Details of the Group's associates are set out below.

| Name of entity | Date of establishment | Place of establishment and operation | Issued and fully paid up share capital | Equity interest attributable to the Group 2015 | 2014 | Principal activities |
|---|---|---|---|---|---|---|
| 廣州ABB微聯牽引設備有限公司 ABB Microunion Traction Equipment Company Limited ("ABB Microunion") | 16 July 2010 | PRC | US$6,000,000 | – *(Note)* | 50% | Traction converters and auxiliary converters |
| 上海金子自動化儀錶有限公司 Shanghai Kaneko Auto-Instrument Company Limited ("Shanghai Kaneko") | 27 May 2004 | PRC | JPY130,000,000 | 23.08% | 23.08% | Manufacture of industrial automatic control valves |
| 遼寧汽輪動力有限公司 Liaoning Steam Turbine Power Company Limited ("Liaoning Steam Turbine") | 7 September 2012 | PRC | RM-B100,000,000 | 25% | 25% | Manufacture of industrial steam turbines |

*Note:* On 26 May 2015, the Group completed the disposal of Beijing Jiaoda Microunion (Note 12). ABB Microunion, which has been Beijing Jiaoda Microunion's associate since incorporation in 2010, ceased to be an associate of the Group accordingly.

**Summarized financial information of material associates**

Summarized financial information in respect of each of the Group's material associates is set out below. The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

| **Liaoning Steam Turbine** | **2015** *RMB'000* | **2014** *RMB'000* |
|---|---|---|
| Current assets | 34,833 | 80,943 |
| Non-current assets | 85,163 | 55,706 |
| Current liabilities | 32,726 | 43,003 |
| Non-current liabilities | – | – |

| **Liaoning Steam Turbine** | **2015** *RMB'000* | **2014** *RMB'000* |
|---|---|---|
| Revenue | 20,920 | 57,636 |
| (Loss) profit for the year | (6,376) | 197 |
| Other comprehensive income for the year | – | – |
| Total comprehensive (expenses) income for the year | (6,376) | 197 |
| Dividends received from the associate for the year | – | – |

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Net assets of Liaoning Steam Turbine | 87,270 | 93,646 |
| Proportion of the Group's ownership interest in Liaoning Steam Turbine | 25% | 25% |
| Carrying amount of the Group's interest in Liaoning Steam Turbine | 21,817 | 23,411 |

| **Aggregate information of associates that are not individually material** | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| The Group's share of profits | 19 | 122 |
| The Group's share of total comprehensive income | 19 | 122 |
| Aggregate carrying amount of the Group's interests in these associates | 1,275 | 1,256 |

## 23. INTEREST IN A JOINT VENTURE

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cost of investment in a joint venture | 5,517 | 5,517 |
| Share of post-acquisition profits (losses) | 673 | (801) |
| Other comprehensive expense | (757) | (496) |
| | 5,433 | 4,220 |

Details of the Group's joint venture are set out below.

| **Name of entity** | **Date of establishment** | **Place of operation** | **Fully paid up registered capital** | **Equity interest attributable to the Group** | **Principal activities** |
|---|---|---|---|---|---|
| 中國南車長江(澳洲)車輛技術服務有限公司 CSR (Australia) Rolling Stock Services Company Pty Ltd | 24 April 2012 | Australia | AU$980,000 | 49% | Provision of technical services and after-sales support to freight wagons |

## 24. DEFERRED TAX ASSETS/LIABILITIES

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Deferred income tax assets | 32,209 | 45,328 |
| Deferred income tax liabilities | (16,640) | (63,294) |
| | 15,569 | (17,966) |

The deferred tax assets (liabilities) recognized by the Group and movements thereon during the year are as follows:

| | Impairment losses on trade and other receivables | Deferred income | VAT refunds | Fair value adjustment of intangible assets *(Note i)* | Undistributed profits of subsidiaries | Other temporary differences *(Note ii)* | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2014 | 23,227 | 4,506 | – | (46,128) | (14,840) | 8,344 | (24,891) |
| Credit (charge) to profit or loss | 5,859 | 2,644 | (2,110) | 1,584 | (1,800) | 748 | 6,925 |
| At 31 December 2014 | 29,086 | 7,150 | (2,110) | (44,544) | (16,640) | 9,092 | (17,966) |
| Credit (charge) to profit or loss | 8,699 | 9,582 | 1,199 | 10,951 | – | (6,439) | 23,992 |
| Derecognized on disposal of a subsidiary | (23,584) | – | 911 | 33,593 | – | (1,377) | 9,543 |
| At 31 December 2015 | 14,201 | 16,732 | – | – | (16,640) | 1,276 | 15,569 |

*Notes:*

(i) Deferred tax liabilities of fair value adjustment recognized by the Group represented the fair value adjustment on intangible assets arising from the business acquisitions in the prior years.

(ii) Other temporary differences mainly represent the temporary differences arising from the amortization of intangible assets and unpaid payroll expenses.

As at 31 December 2015, the Group had unused tax losses of approximately RMB500,566,000 (2014: RMB364,164,000) available to offset against future profits of respective subsidiaries. Included in unrecognized tax losses are losses of RMB221,000,000 (2014: RMB174,908,000) that may be carried forward indefinitely.

The other tax losses unrecognized for deferred tax assets that will expire in:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 2015 | – | 19,790 |
| 2016 | 25,200 | 25,373 |
| 2017 | 26,630 | 28,294 |
| 2018 | 60,522 | 61,644 |
| 2019 | 54,155 | 54,155 |
| 2020 | 113,059 | – |
| Total | 279,566 | 189,256 |

No deferred tax asset has been recognized in respect of the unrecognized tax losses due to the unpredictability of future profit streams of respective subsidiaries.

**25. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Unlisted equity investments, at cost less impairment | 64,217 | 64,217 |

The above unlisted equity investments represent equity investments in private entities established in the PRC, Singapore and the USA. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

The Group obtains 0.25% to 9.99% equity interests in these private entities.

During the year ended 31 December 2015, the Group did not receive dividend income from these equity investments (2014: approximately RMB777,000).

**26. INVENTORIES**

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Raw materials | 486,822 | 569,810 |
| Work in progress | 101,119 | 141,395 |
| Finished goods | 47,190 | 38,404 |
| | 635,131 | 749,609 |

For the year ended 31 December 2015, cost of inventories of approximately RMB1,098,347,000 (2014: RMB1,256,915,000) relating to continuing operations is recognized as an expense in the consolidated statement of profit or loss and other comprehensive income.

Details of inventories pledged are set out in Note 42.

**27. TRADE AND BILLS RECEIVABLES**

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | 1,530,466 | 1,751,252 |
| Less: impairment losses on trade receivables | (178,484) | (201,663) |
| | 1,351,982 | 1,549,589 |
| Bills receivable | 250,576 | 296,805 |
| | 1,602,558 | 1,846,394 |

Trade receivables denominated in the currency other than the functional currency of relevant group entities:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| US$ | 74,938 | 99,596 |
| Japanese Yen ("JPY") | 4,013 | 14,866 |
| European Dollar ("EUR") | 4,483 | 13,368 |
| | 83,434 | 127,830 |

At 31 December 2015, included in trade receivables are retention receivable of RMB104,539,000 (2014: RMB87,184,000). Retention receivables are interest-free and recoverable at end of the retention period of individual contract from 12 to 24 months and within the Group's normal operating cycle. As at 31 December 2015, retention receivables with a carrying amount of RMB69,625,000 (2014: RMB80,427,000) are expected to be collected in 12 months from the end of the reporting period.

The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 0 – 90 days | 646,311 | 725,198 |
| 91 – 180 days | 335,337 | 379,841 |
| 181 – 365 days | 258,571 | 381,219 |
| 1 – 2 years | 345,980 | 343,414 |
| 2 – 3 years | 16,359 | 16,722 |
| | 1,602,558 | 1,846,394 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The creditability of customers is reviewed regularly. The Group maintains strict control over the creditability of customers and its outstanding receivables. More than 79% (2014: 82%) of the trade receivables that are neither past due nor impaired are from customers with good payment history.

As at 31 December 2015, trade receivables with a carrying amount of RMB335,963,000 (2014: RMB336,245,000) that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Aged analysis of trade receivables which are past due but not impaired is as follows:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 1 – 2 years | 335,963 | 332,419 |
| 2 – 3 years | – | 3,826 |
| Total | 335,963 | 336,245 |

**Movements in the allowance for doubtful debts**

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At 1 January | 201,663 | 135,184 |
| Impairment losses recognized on trade receivables | 155,089 | 100,812 |
| Amounts recovered during the year | (31,288) | (33,008) |
| Amounts written off as uncollectible | (865) | (1,325) |
| Eliminated on disposal of a subsidiary | (146,115) | – |
| At 31 December | 178,484 | 201,663 |

In determining the recoverability of the trade receivables, the Group reassesses the credit quality of the trade receivables since the credit was granted and up to the reporting date. Based on the historical experience of the Group, the Directors believe that no further allowance is required.

Details of trade and bills receivables pledged to secure banking facilities are set out in Note 42.

The following were the Group's financial assets that were transferred by discounting, factoring and pledging to banks, or endorsing to suppliers. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognize the full carrying amount of the receivables and associated liabilities. These financial assets and liabilities are carried at amortized cost in the Group's consolidated statement of financial position.

**As at 31 December 2015**

| | Bills receivable discounted or pledged to banks | Bills receivable endorsed to suppliers | Trade receivables factored to banks | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Carrying amount of: | | | | |
| Transferred assets | 4,780 | 137,442 | – | 142,222 |
| Associated liabilities | (4,780) | (137,442) | – | (142,222) |
| Net position | – | – | – | – |

**As at 31 December 2014**

| | Bills receivable discounted or pledged to banks | Bills receivable endorsed to suppliers | Trade receivables factored to banks | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Carrying amount of: | | | | |
| Transferred assets | 48,600 | 129,774 | 85,300 | 263,674 |
| Associated liabilities | (48,600) | (129,774) | (85,300) | (263,674) |
| Net position | – | – | – | – |

**28. OTHER RECEIVABLES AND PREPAYMENTS**

An analysis of other receivables and prepayments is as follows:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Prepayments to suppliers | 49,250 | 61,248 |
| Other receivables | 131,849 | 109,560 |
| Less: impairment losses on other receivables | (4,145) | (4,145) |
| | 176,954 | 166,663 |

Other receivables and prepayments denominated in the currency other than the functional currency of relevant group entities:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| JPY | 68,225 | 42,722 |
| EUR | 10,648 | – |
| | 78,873 | 42,722 |

**Movements in the allowance for doubtful debts**

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At 1 January | 4,145 | 3,805 |
| Impairment losses recognized on other receivables | – | 440 |
| Amounts recovered during the year | – | (100) |
| At 31 December | 4,145 | 4,145 |

## 29. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Constructions in progress at the end of reporting period: | | |
| Contract costs incurred plus recognized profits less recognized losses | – | 519,247 |
| Less: progress billings | – | (467,702) |
| Analysis for reporting purpose as: | | |
| Amounts due from customers for contract work | – | 51,545 |

The decrease in the amounts due from customers for contract work as at 31 December 2015 is mainly attributable to the disposal of Beijing Jiaoda Microunion as set out in Note 12.

## 30. PLEDGED BANK DEPOSITS

The pledged bank deposits have been pledged to secure banking facilities granted to the Group. The pledged bank deposits amounting to RMB73,576,000 (2014: RMB110,167,000) have been pledged to secure short-term banking facilities and are therefore classified as current assets.

The remaining deposits amounting to RMB4,731,000 (2014: RMB8,727,000) have been pledged to secure long-term banking facilities and are therefore classified as non-current assets. The pledged bank deposits carry market interest rates of 0.7% to 3% (2014: 0.7% to 3%) per annum as at 31 December 2015.

Details of bank deposits pledged are set out in Note 42.

Denominated in the currency other than the functional currency of relevant group entities:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| US$ | 11,907 | 18,191 |
| JPY | – | 6,327 |
| | 11,907 | 24,518 |

### 31. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group, and short-term bank deposits with an original maturity of three months or less which carry interest at prevailing deposit interest rate at 0.35% (2014: 0.35%) per annum.

Denominated in the currency other than the functional currency of relevant group entities:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| US$ | 263,801 | 16,124 |
| JPY | 3,019 | 25,582 |
| EUR | 227 | 13,967 |
| Hong Kong Dollar ("HK$") | 212 | 202 |
| Singapore Dollar ("SG$") | 26 | 25 |
| Great Britain Pound ("GBP") | 3 | 3 |
| | 267,288 | 55,903 |

### 32. TRADE PAYABLES

An aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 0 – 90 days | 242,409 | 262,416 |
| 91 – 180 days | 143,222 | 154,045 |
| 181 – 365 days | 49,529 | 51,133 |
| 1 – 2 years | 50,779 | 45,346 |
| Over 2 years | 16,471 | 20,993 |
| | 502,410 | 533,933 |

The average credit period on purchases is 90 to 180 days.

Denominated in the currency other than the functional currency of relevant group entities:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| US$ | 45,834 | 28,149 |
| JPY | 6,801 | 15,447 |
| EUR | 5,271 | 6,330 |
| SG$ | 184 | 757 |
| GBP | – | 1,679 |
| Thai Baht ("THB") | – | 27 |
| | 58,090 | 52,389 |

**33. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS**

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Advance from customers | 43,358 | 60,606 |
| Accrued payroll and welfare | 51,604 | 61,510 |
| Interest payable | 7,435 | 17,871 |
| Other deposits, payables and accruals | 100,629 | 80,660 |
| Construction costs payables | 62,140 | 26,111 |
| Transaction costs payable for disposal of a subsidiary | 12,237 | – |
| Other tax payable | 25,525 | 82,628 |
| | 302,928 | 329,386 |

Denominated in the currency other than the functional currency of relevant group entities:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| US$ | – | 3,379 |
| JPY | 35,475 | 17,231 |
| | 35,475 | 20,610 |

## 34. BANK BORROWINGS

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Secured bank borrowings | 443,551 | 346,757 |
| The bank borrowings are repayable: | | |
| – Within one year | 283,551 | – |
| – More than one year, but not exceeding two years | 60,000 | – |
| – More than two years, but not exceeding five years | 100,000 | – |
| | 443,551 | 346,757 |
| Less: Amounts due within one year shown under current liabilities | (283,551) | (346,757) |
| Amounts due after one year shown under non-current liabilities | 160,000 | – |

The amounts due are based on scheduled repayment dates set out in the loan agreements. At the end of 31 December 2015 and 2014, no bank loans have contained a repayment on demand clause.

The carrying amount of the Group's borrowings denominated in the currency other than the functional currency of relevant group entities are as follows:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| US$ | 13,694 | 39,815 |
| JPY | 32,969 | 27,342 |
| | 46,663 | 67,157 |

The floating interest rate borrowings were charged at the rates ranging from 2.25% to 7.20% (2014: 2.24% to 8.63%) per annum for the year ended 31 December 2015.

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 42.

## 35. GUARANTEED NOTES

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| US$200,000,000 guaranteed notes due 2016 | 424,817 | 1,160,804 |
| US$30,000,000 guaranteed notes due 2018 | 191,358 | – |
| | 616,175 | 1,160,804 |
| Less: Amounts due within one year shown under current liabilities | (424,817) | – |
| Amounts due after one year shown under non-current liabilities | 191,358 | 1,160,804 |

**US$200,000,000 guaranteed notes due 2016 (the "2016 Guaranteed Notes")**

On 20 April 2011, the Company issued 7.75% guaranteed notes with the aggregate principal amount of US$200,000,000 (equivalent to approximately RMB1,306,371,000) and maturity date on 20 April 2016 which are unsecured, unconditionally and irrecoverably guaranteed by certain oversea subsidiaries of the Company. The 2016 Guaranteed Notes are listed on the Singapore Exchange Securities Trading Limited.

According to the terms and conditions of the 2016 Guaranteed Notes, at any time or from time to time prior to the maturity date, the Group may at its option to redeem the notes at a redemption price set forth below.

| **Period** | **Redemption Price** |
|---|---|
| Prior to 20 April 2014 | 107.750% of the principal amount, plus accrued and unpaid interest |
| 20 April 2014 to 20 April 2015 | 103.875% of the principal amount, plus accrued and unpaid interest |
| On 20 April 2015 and thereafter | 101.9375% of the principal amount, plus accrued and unpaid interest |

The fair value of the early redemption right at 31 December 2015 is estimated to be no value (2014: RMB47,000). The early redemption right has been recognized as embedded derivative financial asset in the consolidated statement of financial position, and a loss of RMB47,000 was recognized during the current year (2014: RMB3,907,000) (Note 8).

The effective interest rate is approximately 8.74% per annum after being adjusted for transaction costs.

During the current year, the Company redeemed the 2016 Guaranteed Notes with the aggregate principal amount of US$126,390,000 (equivalent to approximately RMB785,636,000) at a premium of US$2,411,000 (equivalent to approximately RMB14,767,000) and repaid the attributable accrued and unpaid interest as of each of the redemption dates of US$1,212,000 (equivalent to approximately RMB7,536,000).

The total redemption premium of RMB14,767,000 was expensed and included in "other gains and losses" in the consolidated statement of profit or loss and other comprehensive income (Note 8).

As at 31 December 2015, the outstanding principal amount of the 2016 Guaranteed Notes is US$65,610,000. The remaining balance amounting to RMB424,817,000 will be matured on 20 April 2016 and is classified as current liability accordingly.

On 7 January 2016, the Company further redeemed 64% of the outstanding principal amount of the 2016 Guaranteed Notes of US$42,000,000 (equivalent to approximately RMB275,713,000).

The movements of the 2016 Guaranteed Notes during the reporting period are as follows:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At 1 January | 1,160,804 | 1,146,863 |
| Repayment of guaranteed notes including early redemption premium | (800,403) | – |
| Early redemption premium of guaranteed notes recognized in profit or loss *(Note 8)* | 14,767 | – |
| Effective interest recognized | 71,118 | 100,617 |
| Interest paid/payable | (59,581) | (90,888) |
| Exchange differences | 38,112 | 4,212 |
| At 31 December | 424,817 | 1,160,804 |
| Less: Amounts due within one year shown under current liabilities | (424,817) | – |
| Amounts due after one year shown under non-current liabilities | – | 1,160,804 |

**US$30,000,000 guaranteed notes due 2018 (the "2018 Guaranteed Notes")**

On 11 December 2015, the Company's subsidiary, Tri-control Automation Company Limited ("Tri-control") issued 8.75% guaranteed notes with the aggregate principal amount of US$30,000,000 (equivalent to approximately RMB193,074,000) at an issuance costs of US$540,000 (equivalent to approximately RMB3,475,000) and the maturity date on 11 December 2018. The 2018 Guaranteed Notes are unsecured, unconditionally and irrecoverably guaranteed by the Company and certain oversea subsidiaries of the Company.

According to the terms and conditions of the 2018 Guaranteed Notes, at any time or from time to time prior to the maturity date, Tri-control may at its option to redeem the notes at a redemption price set forth below.

| **Period** | **Redemption Price** |
|---|---|
| Prior to 11 December 2017 (in whole but not in part of the notes) | 100% of the principal amount, plus the applicable premium *(Note*)* as of, and accrued and unpaid interest if any |
| On 11 December 2017 and thereafter (all or any part of the notes) | 104% of the principal amount, plus accrued and unpaid interest if any |

*Note*:* "Applicable Premium" means the greater of (1) 1.00% of the principal amount of the notes; and (2) the excess of (a) the present value at the redemption date of the redemption price of the notes on 11 December 2017 (i.e. 104% of the principal amount), plus all required remaining scheduled interest payments due, computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (b) the principal amount.

As the estimated fair value of the early redemption right is insignificant at initial recognition, the embedded derivative is not separately accounted for. The effective interest rate is approximately 9.45% per annum after deducting the adjustment for transaction costs.

The movement of the 2018 Guaranteed Notes during the reporting period is as follows:

| | **2015** |
|---|---|
| | *RMB'000* |
| Principal amount | 193,074 |
| Less: Direct transaction costs | (3,475) |
| | 189,599 |
| Effective interest recognized | 989 |
| Interest payable | (940) |
| Exchange realignment | 1,710 |
| At 31 December (due after one year) | 191,358 |

## 36. LONG TERM PAYABLE

On 21 December 2015, Wuzhong and Beijing Consen Automation Control Company Limited ("Beijing Consen") entered into a capital contribution agreement (the "Agreement") with 國開發展基金有限公司 (transliterated as CDB Development Fund Limited, the "Investor"), a limited liability company incorporated in the PRC and wholly-owned by China Development Bank Corporation.

Pursuant to the Agreement, the Investor made a capital contribution of RMB100,000,000 in cash to Wuzhong, a wholly-owned subsidiary by Beijing Consen with paid-in capital of RMB320,000,000 as at 21 December 2015. Beijing Consen is in the process of making a capital contribution of additional RMB280,000,000 to the paid-in capital of Wuzhong, whereupon the registered capital of Wuzhong will be increased to RMB600,000,000. The capital injection by Beijing Consen and the contribution of the Investor are collectively referred as the "Transaction".

Upon completion of the Transaction, the registered capital of Wuzhong will be increased to RMB700,000,000 and the nominal equity interest of Beijing Consen and the Investor in Wuzhong are 85.71% and 14.29% respectively.

According to the Agreement, the Investor will: (1) not appoint directors or management personnel to Wuzhong to exercise any significant influence on the operational and financial policies; (2) receive an investment income annually on a fixed rate of 1.2%, which is expected to be prepaid quarterly by Beijing Consen and guaranteed by the Company. The investment income is not influenced by the operating results of Wuzhong; (3) retrieve the contribution amount of RMB100,000,000 on a scheduled timetable, Wuzhong will repay evenly of RMB10,000,000 each year from 2021 to 2030, by exploring different approaches of Beijing Consen's purchase of shares, Wuzhong's registered capital reduction or other financial market exit mechanisms. The Directors consider that the Transaction is substantially raising of debt in nature, therefore deemed and classified as "long term payable" of the Group.

## 37. SHARE CAPITAL

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| | *'000 shares* | *HK'000* | *'000 shares* | *HK'000* |
| Authorized: | | | | |
| Ordinary shares of HK$0.01 each | 3,000,000 | 30,000 | 3,000,000 | 30,000 |
| Issued and fully paid: | | | | |
| At 1 January and 31 December | 1,026,264 | 10,262 | 1,026,264 | 10,262 |

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Shown in the consolidated statement of financial position | 9,548 | 9,548 |

## 38. RESERVES

### (i) Share premium

The share premium mainly comprises of (a) share premium arising from the issuance of H shares; and (b) contribution and distribution from/to the ultimate holding company.

### (ii) Other reserves

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Capital reserve arising from conversion of convertible notes issued by a subsidiary | 47,842 | 47,842 |
| Acquisition of additional interest in a subsidiary | 5,159 | 5,159 |
| Special reserves on group re-organization | (18,335) | (18,335) |
| | 34,666 | 34,666 |

### (iii) Statutory surplus reserves

As stipulated by the relevant PRC laws and regulations, before distribution of profit each year, the subsidiaries established in the PRC shall set aside 10% of their profit to the statutory surplus reserves. The statutory surplus reserves can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

### (iv) Share option reserve

The Group's share option reserve represents the recognition of the fair value of share options of the Group determined at the date of grant of the share options over the vesting period.

## 39. DEFERRED INCOME

| | Arising from government grants RMB'000 (Note i) | Relocation compensation RMB'000 (Note ii) | Total RMB'000 |
|---|---|---|---|
| At 1 January 2014 | 60,827 | – | 60,827 |
| Addition | 10,835 | – | 10,835 |
| Released to profit or loss | (12,735) | – | (12,735) |
| At 31 December 2014 | 58,927 | – | 58,927 |
| Addition | 71,448 | 50,000 | 121,448 |
| Released to profit or loss | (7,625) | – | (7,625) |
| At 31 December 2015 | 122,750 | 50,000 | 172,750 |

*Notes:*

(i) Deferred income arising from government grant represents the government subsidies obtained in relation to (a) the purchase of the land use right and the infrastructure construction, which was included in the consolidated statements of financial position as deferred income and credited to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected useful life of the relevant assets; (b) the expenses on technology development when the grants are received and the corresponding research activities have not been accomplished, which was included in deferred income and recognized in profit or loss when the research and development expenses has already been fully incurred.

(ii) On 21 May 2015, the Company's subsidiary, Wuzhong entered into an agreement with the municipal government of Wuzhong City of Ningxia Hui Autonomous Region in the PRC as at a total compensation consideration of approximately RMB200,279,000. The amount of compensation attributable to losses of the land use right, property, plant and unmovable equipment, related expenses and losses from production suspension incurred during the relocation. During the current year, the relocation activities have not yet commenced. Accordingly, the compensation income of RMB50,000,000 received in advance is recorded as deferred income and will be recognized as other income based on the relocation progress subsequently.

## 40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes the bank borrowings, guaranteed notes as well as long term payable disclosed in Notes 34, 35 and 36 respectively, and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The Directors review the capital structure on an annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on the results of the review of the Directors, the Group will balance its overall capital structure through the payment of dividends, raising new share capital as well as the issue of new debt or the redemption of existing debt.

**41. FINANCIAL INSTRUMENTS**

**(i) Categories of financial instruments**

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Financial assets** | | |
| Embedded derivative financial asset | – | 47 |
| Loans and receivables (including cash and cash equivalent) | 2,409,810 | 2,465,934 |
| Available-for-sale financial assets, at cost | 64,217 | 64,217 |
| **Financial liabilities** | | |
| Amortized cost | 1,896,187 | 2,227,652 |

**(ii) Financial risk management objectives and policies**

The Group's major financial instruments include available-for-sale financial assets, embedded derivative financial asset, trade and bills receivables, other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables, dividend payable, bank borrowings, guaranteed notes and long term payable. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, currency risk and liquidity risk. The Group's overall financial risk management objectives and policies remain unchanged from prior years. The Directors review and agree policies for managing each of these risks and they are summarized below.

***Credit risk***

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position. The management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on cash and cash equivalents and bank deposits is limited because the banks are with good reputation. The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for the majority of the trade receivables as at the end of the reporting period.

***Currency risk***

Several subsidiaries of the Company have foreign currency sales and purchases which expose the Group to foreign currency risk.

The carrying amounts of the Groups' foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| US$ | 675,703 | 1,232,147 | 350,646 | 133,911 |
| JPY | 75,245 | 60,020 | 75,257 | 89,497 |
| EUR | 5,271 | 6,330 | 15,358 | 27,335 |
| HK$ | – | – | 212 | 202 |
| SG$ | 184 | 757 | 26 | 25 |
| GBP | – | 1,679 | 3 | 3 |
| THB | – | 27 | – | – |
| TOTAL | 756,403 | 1,300,960 | 441,502 | 250,973 |

The Group currently does not have a formal foreign currency hedging policy. The management reviewed and monitored the currency risk exposure regularly.

The following table details the Group's sensitivity to a 5% (2014: 1%) increase and decrease in RMB against the major foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of reporting period for a 5% (2014: 1%) change in foreign currency rates. A negative number below indicates a decrease in profit for the year where RMB weakens 5% (2014: 1%) against foreign currencies. For a 5% (2014: 1%) strengthening of RMB against foreign currencies, there would be an equal and opposite impact on the profit, and the balances below would be positive.

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| | *RMB'000* | *RMB'000* |
| US$ | (17,076) | (11,085) |
| JPY | 1 | 246 |
| EUR | 421 | 176 |

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure, which does not reflect the exposure during the reporting period.

***Interest rate risk***

The Group is exposed to fair value interest rate risk in relation to fixed-rate guaranteed notes and long term payable disclosed in Note 35 and 36 respectively. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

The Group was also exposed to cash flow interest rate risk in relation to pledged bank deposits, bank balances and variable-rate bank borrowings (see Note 34 for details of these borrowings). It is the Group policy to maintain certain borrowings at floating rate of interests and therefore the related fair value interest rate risk is considered limited.

The Group's sensitivity to cash flow interest rate risk is prepared assuming the amount of variable-rate borrowings at the end of the reporting period was outstanding for the whole year. A 25 (2014: 25) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

| | **2015** | **2014** |
|---|---|---|
| Reasonably possible change in interest rate | 25 basis points | 25 basis points |

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Increase (decrease) in post-tax profit for the year | | |
| as a result of increase in interest rate | (618) | (220) |
| as a result of decrease in interest rate | 618 | 220 |

The sensitivity analysis in interest rate does not affect other components of equity.

***Liquidity risk***

Ultimate responsibility for liquidity risk management rests with the Directors, which had built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows. As at 31 December 2015, the Group has available unutilized banking facilities of approximately RMB590,655,000 (2014: RMB721,541,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived based on the interest rate at the end of each reporting period.

| **At 31 December 2015** | **Weighted average effective interest rate** | **On demand and within 3 months** | **3 months to 6 months** | **6 months to 1 year** | **1 year to 2 years** | **2 years to 3 years** | **3 years to 4 years** | **4 years to 5 years** | **More than 5 years** | **Total undiscounted cash flow** | **Carrying amount** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | – | 122,244 | 176,030 | 204,136 | – | – | – | – | – | 502,410 | 502,410 |
| Bank borrowings | 5.25 | 179,494 | 3,728 | 114,777 | 69,880 | 79,880 | 29,880 | 12,090 | – | 489,729 | 443,551 |
| Other payables | – | 110,348 | 41,780 | 81,917 | – | – | – | – | – | 234,045 | 234,045 |
| Dividend payable | – | 6 | – | – | – | – | – | – | – | 6 | 6 |
| 2016 Guaranteed Notes | 8.74 | 272,731 | 161,569 | – | – | – | – | – | – | 434,300 | 424,817 |
| 2018 Guaranteed Notes | 9.45 | – | 8,523 | 8,523 | 17,046 | 210,433 | – | – | – | 244,525 | 191,358 |
| Long term payable | 1.20 | 300 | 300 | 600 | 1,200 | 1,200 | 1,200 | 1,200 | 112,000 | 118,000 | 100,000 |
| | | 685,123 | 391,930 | 409,953 | 88,126 | 291,513 | 31,080 | 13,290 | 112,000 | 2,023,015 | 1,896,187 |

| At 31 December 2014 | Weighted average effective interest rate | On demand or within 3 months | 3 months to 6 months | 6 months to 1 year | 1 year to 2 years | 2 years to 3 years | 3 years to 4 years | 4 years to 5 years | More than 5 years | Total undiscounted cash flow | Carrying amount |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | – | 143,071 | 166,673 | 224,189 | – | – | – | – | – | 533,933 | 533,933 |
| Bank borrowings | 5.70 | 207,904 | 28,774 | 116,319 | – | – | – | – | – | 352,997 | 346,757 |
| Other payables | – | 94,460 | 41,681 | 50,011 | – | – | – | – | – | 186,152 | 186,152 |
| Dividend payable | – | 6 | – | – | – | – | – | – | – | 6 | 6 |
| 2016 Guaranteed Notes | 8.74 | – | 45,525 | 45,525 | 1,220,373 | – | – | – | – | 1,311,423 | 1,160,804 |
| | | 445,441 | 282,653 | 436,044 | 1,220,373 | – | – | – | – | 2,384,511 | 2,227,652 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

**(iii) Fair value measurements of financial instruments**

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

***(a) Fair value of the Group's financial assets that are measured at fair value on a recurring basis***

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

| **Financial assets** | **Fair value as at** | | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** | **Significant unobservable input(s)** |
|---|---|---|---|---|---|
| | **At 31 December 2015** | **At 31 December 2014** | | | |
| Early redemption right of the 2016 Guaranteed Notes classified as embedded derivative financial asset in the consolidated statement of financial position. | – | Assets – RMB47,000 | Level 3 | The fair value of the embedded derivative financial asset is calculated based on option pricing model with key inputs which are the difference of the quoted market price of the 2016 Guaranteed Notes at US$100.92 extracted from Bloomberg (2014: US$100.32) and the fair value of liability component of the notes which was based on discounted cash flows using a discount rate of 6.43% as at 31 December 2015 (2014: 7.79%). | Discount rate of the liability component (Note) |
| Early redemption right of the 2018 Guaranteed Notes insignificant at initial recognition, therefore not separately accounted for. | – | N/A | Level 3 | The fair value of the early redemption right is calculated based on option pricing model with key inputs which are the difference of the quoted price in an over-the-counter-market of the 2018 Guaranteed Notes at US$99.88 extracted from Bloomberg and the fair value of liability component of the notes which was based on discounted cash flows using a discount rate of 6.43% as at 31 December 2015. | Discount rate of the liability component (Note) |

*Note:* An increase in the discount rate used in isolation would result in a decrease in the fair value measurement of the early redemption right, and vice versa.

***(b) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)***

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

| | **31 December 2015** | | **31 December 2014** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| The 2016 Guaranteed Notes – liability component | 424,817 | 429,943 | 1,160,804 | 1,179,524 |
| The 2018 Guaranteed Notes – liability component | 191,358 | 194,564 | – | – |

The fair value of the financial liabilities included in the level 3 category above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

***(c) Reconciliation of Level 3 fair value measurements***

| | **Embedded derivative financial asset** |
|---|---|
| | *RMB'000* |
| At 1 January 2014 | 3,954 |
| Changes in fair value during the year | (3,907) |
| At 31 December 2014 | 47 |
| Changes in fair value during the year | (47) |
| At 31 December 2015 | – |

Changes in fair value are included in "other gains and losses" (Note 8).

## 42. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's assets were pledged to secure banking facilities granted to the Group. The aggregate carrying amount of the assets of the Group pledged at the end of the reporting period is as follows:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Buildings | 244,430 | 158,625 |
| Land use rights | 100,992 | 51,657 |
| Inventories | 59,955 | 66,346 |
| Trade receivables | – | 85,300 |
| Bills receivable | 4,780 | 48,600 |
| Pledged bank deposits | 78,307 | 118,894 |
| | 488,464 | 529,422 |

The amounts disclosed above includes the assets of the Group pledged at 31 December 2015 to obtain corporate guarantee from an independent third party for available banking facilities of RMB70,000,000 (2014: RMB38,959,000) granted to the Group. The aggregate carrying amount of these pledged assets are buildings amounted to approximately RMB26,976,000 (2014: RMB28,134,000) and land use right amounted to approximately RMB7,532,000 (2014: RMB7,767,000). In addition, the Group paid approximately RMB1,575,000 to the independent third party for the corporate guarantees provided (2014: RMB1,125,000).

## 43. OPERATING LEASES

### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within one year | 15,000 | 22,084 |
| In the second to fifth year inclusive | 5,951 | 53,000 |
| | 20,951 | 75,084 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a lease term ranging from one to five years and rentals are fixed at the date of signing of lease agreements. The decrease in the commitment amount is mainly attributable to the disposal of a subsidiary in the current year.

## 44. CAPITAL COMMITMENTS

| | **2015** | **2014** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Capital expenditure contracted for but not provided in the consolidated financial statements | | |
| – in respect of acquisition of property, plant and equipment | 78,333 | 7,615 |

## 45. RETIREMENT BENEFITS SCHEME

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme which are calculated based on 20% of the employee's basic salaries during both years.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a MPF Scheme for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

## 46. SHARE-BASED PAYMENT TRANSACTIONS

**Equity-settled share option scheme**

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 16 June 2007 for the primary purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the following participants: (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives of the Company or substantial shareholders; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial shareholders. The Scheme will remain valid for a period of ten years commencing on 16 June 2007.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

An amount of HK$1 is payable by eligible employee to the Company on acceptance of the option as consideration for the grant. Options may be exercised at any time from 12 months to the fifth anniversary of the date of grant. The options are exercisable in three tranches at the first, second and third anniversary from date of grant respectively, each with one third of the total options granted. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 25 July 2014, the Company granted 102,626,000 share options to the Directors and certain employees of the Group (the "Grantees") to subscribe for a total of 102,626,000 ordinary shares of HK$0.01 each in the share capital of the Company under the share option scheme adopted by the Company on 16 June 2007, subject to acceptance by the Grantees.

Among the share options granted above, 12,260,000 share options were granted to the Directors to subscribe for a total of 12,260,000 shares in the Company and 90,366,000 share options were granted to certain employees of the Group to subscribe 90,366,000 shares in the Company.

At 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 102,626,000 (2014: 102,626,000), representing 10% (2014: 10%) of the shares of the Company in issue at that date. There are no share options lapsed during the current and prior years.

The following tables disclose details of the Company's share options held by the Grantees and movements in such holdings under the share option scheme during the year:

| | | | | | Number of options ('000) | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of grant | Vesting period | Exercise period | Exercise price | Outstanding at 31 December 2014 | Granted during the year | Exercised/ lapsed during the year | Outstanding at 31 December 2015 |
| Tranche 1 | 25 July 2014 | 25 July 2014 to 24 July 2015 | 25 July 2015 to 24 July 2018 | HK$1.60 | 34,209 | – | – | 34,209 |
| Tranche 2 | 25 July 2014 | 25 July 2014 to 24 July 2016 | 25 July 2016 to 24 July 2018 | HK$1.60 | 34,209 | – | – | 34,209 |
| Tranche 3 | 25 July 2014 | 25 July 2014 to 24 July 2017 | 25 July 2017 to 24 July 2018 | HK$1.60 | 34,208 | – | – | 34,208 |
| | | | | | 102,626 | – | – | 102,626 |
| Exercisable at the end of the year | | | | | | | | 34,209 |
| Weighted average exercise price | | | | | HK$1.60 | – | – | HK$1.60 |

The following tables disclose details of the Company's share options held by the Grantees and movements in such holdings under the share option scheme during prior year:

| | Date of grant | Vesting period | Exercise period | Exercise price | Number of options ('000) Outstanding at 31 December 2013 | Granted during the year | Exercised/ lapsed during the year | Outstanding at 31 December 2014 |
|---|---|---|---|---|---|---|---|---|
| Tranche 1 | 25 July 2014 | 25 July 2014 to 24 July 2015 | 25 July 2015 to 24 July 2018 | HK$1.60 | – | 34,209 | – | 34,209 |
| Tranche 2 | 25 July 2014 | 25 July 2014 to 24 July 2016 | 25 July 2016 to 24 July 2018 | HK$1.60 | – | 34,209 | – | 34,209 |
| Tranche 3 | 25 July 2014 | 25 July 2014 to 24 July 2017 | 25 July 2017 to 24 July 2018 | HK$1.60 | – | 34,208 | – | 34,208 |
| | | | | | – | 102,626 | – | 102,626 |
| Exercisable at the end of the year | | | | | | | | – |
| Weighted average exercise price | | | | | – | HK$1.60 | – | HK$1.60 |

Exercise Price of the share options granted is HK$1.60 per share, which represents the highest of (i) the closing price per Share of HK$1.60 on the date of grant of the Share Options, i.e. 25 July 2014; (ii) the average closing price of HK$1.56 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Share, being HK$0.01.

During the current year, the Group recognized share-based expenses of RMB3,176,000 (2014: 1,735,000). The total fair value of the options calculated by using the binomial model was HK$8,880,000 (equivalent to approximately RMB7,005,000).

The following assumptions were used to calculate the fair value of share options:

| | |
|---|---|
| Exercise Price | HK$1.60 |
| Assumed Time to Maturity (Contractual Option Life) | 4 years |
| Risk-free Interest Rate | 1.18% |
| Annualized Volatility | 45.88% |
| Expected Dividend Yield (Annualized) | 0.92% |
| Post-Vesting Exit Rate of Employees | 8.37% |

Expected volatility was determined by using the historical volatility of the Company over the most recent period commensurate with the expected life of the share options and reflects the assumption that the historical volatility is indicative of future trends.

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimation. Changes in variables and assumptions may result in changes in the fair value of the options.

## 47. RELATED PARTY TRANSACTIONS

The remuneration of key management personnel during the year was as follows:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Salaries and other benefits | 18,590 | 21,150 |
| Retirement benefit scheme contributions | 604 | 460 |
| Equity-settled share-based payments | 658 | 333 |
| | 19,852 | 21,943 |

## 48. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Non-current assets** | | |
| Investment in subsidiaries | 310,944 | 326,489 |
| Amounts due from subsidiaries | 293,837 | 884,010 |
| Property, plant and equipment | 2 | 2 |
| Embedded derivative financial asset | – | 47 |
| | 604,783 | 1,210,548 |
| **Current assets** | | |
| Other receivables and prepayments | 354 | 346 |
| Dividends receivable | 9,608 | 290,636 |
| Amounts due from subsidiaries | 510,750 | 393,411 |
| Bank balances and cash | 5,639 | 1,970 |
| | 526,351 | 686,363 |
| **Current liabilities** | | |
| Other payables and accruals | 6,301 | 18,497 |
| Amounts due to subsidiaries | 7,674 | 7,226 |
| Dividend payable | 6 | 6 |
| Guaranteed notes – due within one year | 424,817 | – |
| | 438,798 | 25,729 |
| **Net current assets** | 87,553 | 660,634 |
| **Total assets less current liabilities** | 692,336 | 1,871,182 |
| **Capital and reserves** | | |
| Share capital | 9,548 | 9,548 |
| Share premium and reserves | 682,788 | 700,830 |
| **Total equity** | 692,336 | 710,378 |
| **Non-current liabilities** | | |
| Guaranteed notes – due after one year | – | 1,160,804 |
| | 692,336 | 1,871,182 |

**Movement in capital and reserves**

| | Share capital | Share premium | Share option reserve | Retained profits | Total Equity |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2014 | 9,548 | 648,367 | – | 31,386 | 689,301 |
| Profit and other comprehensive income for the year | – | – | – | 19,342 | 19,342 |
| Recognition of share-based payments *(Note 46)* | – | – | 1,735 | – | 1,735 |
| At 31 December 2014 | 9,548 | 648,367 | 1,735 | 50,728 | 710,378 |
| Loss and other comprehensive income for the year | – | – | – | (21,218) | (21,218) |
| Recognition of share-based payments *(Note 46)* | – | – | 3,176 | – | 3,176 |
| At 31 December 2015 | 9,548 | 648,367 | 4,911 | 29,510 | 692,336 |

## 49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2015 and 2014 are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share capital/ registered capital | Equity interest attributable to the Group as at 31 December 2015 % | 2014 % | Principal activities |
|---|---|---|---|---|---|
| Tricon International Group Inc. ("Tricon") | BVI | Ordinary shares US$1 | 100 | 100 | Investment holding |
| Trisen International Limited ("Trisen") | BVI | Ordinary shares US$5,000 | 100 | 100 | Investment holding |
| Cowin Global Investments China Limited | BVI | Ordinary shares US$1 | 100 | 100 | Investment holding |
| Inovex Corporation | USA | Ordinary shares US$7,300,001 | 100 | 100 | Business development and provision of engineering services in overseas markets |
| Tri-sen Systems Corporation | USA | Ordinary shares US$7,003,487 | 100 | 100 | Business development and provision of industrial turbo machinery process controls |
| 日本イノベックス株式会社 Tri-sen Systems Japan Corporation | Japan | Ordinary shares JPY100,000,000 | 100 | 100 | Business development and provision of control equipment |

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share capital/ registered capital | Equity interest attributable to the Group as at 31 December 2015 % | 2014 % | Principal activities |
|---|---|---|---|---|---|
| Consen Automation (Singapore) Pte. Limited | Singapore | Ordinary shares SG$1,000,000 | 100 | 100 | Overseas business development and provision of engineering services |
| Trisen Asia Control Pte. Limited | Singapore | Ordinary shares SG$1,500,000 | 70 | 70 | Distribution, training and engineering of instrumentation and control products |
| 北京康吉森自動化設備技術有限責任公司 Beijing Consen *(Note i and ii)* | PRC | Registered capital RMB230,000,000 | 100 | 100 | Provision of systems design and development, trading of equipment safety and critical control systems |
| 北京康吉森交通技術有限公司 Beijing Transportation *(Note i)* | PRC | Registered capital RMB70,000,000 | 100 | 100 | Design, development and sales of industrial railway signalling and interlocking system |
| 北京創康自動化工程有限公司 Beijing Tri-control Automation Company Limited *(Note i and ii)* | PRC | Registered capital US$1,000,000 | 100 | 100 | Provision of systems design and development, trading of equipment and engineering and maintenance services of safety and critical control systems |
| 北京交大微聯科技有限公司 Beijing Jiaoda Microunion *(Note i)* | PRC | Registered capital RMB100,000,000 | – | 76.7 | Design, development and sales of railway interlocking system |
| 北京恒優聯科技有限公司 Beijing Heng Youlian Technology Company Limited *(Note i and iii)* ("Heng Youlian") | PRC | Registered capital RMB20,000,000 | – | 76.7 | Imports and exports of goods and technology as well as an agent of imports and exports |
| 北京天竺興業軟件技術有限公司 Beijing Software *(Note i and ii)* | PRC | Registered capital US$40,000,000 | 100 | 100 | Research and development as well as software programming and licensing |
| 北京力博遠投資管理有限公司 Beijing Liboyuan Investment Management Company Limited *(Note i and ii)* | PRC | Registered capital RMB10,000,000 | 100 | 100 | Investment holding |

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share capital/ registered capital | Equity interest attributable to the Group as at 31 December 2015 % | 2014 % | Principal activities |
|---|---|---|---|---|---|
| 北京恒通方大新材料技術有限公司 Beijing Hengtong Fangda New Materials and Technology Company Limited *(Note i)* | PRC | Registered capital RMB10,000,000 | 100 | 100 | Design, development and sales of construction material for railway and highroad, as well as technology services |
| 北京康吉森油氣工程技術有限公司 Beijing Consen Oil and Gas Engineering Company Limited *(Note i)* | PRC | Registered capital RMB50,000,000 | 100 | 100 | Trading of equipment of safety and critical control systems as well as technology service |
| 北京康吉森過程控制技術有限公司 Consen Process Control Technology Company Limited *(Note i)* | PRC | Registered capital RMB20,000,000 | 100 | 100 | Development and trading of petrochemical automation control system |
| 北京中自化物資裝備技術有限公司 Beijing CAG Materials and Equipment Technology Company Limited *(Note i)* | PRC | Registered capital RMB50,000,000 | 100 | 100 | Trading of equipment of safety and critical control systems |
| 北京康吉森儀器儀錶有限公司 Beijing Consen Instrument Company Limited *(Note i)* | PRC | Registered capital RMB1,000,000 | 100 | 100 | Development and trading of instrument |
| 北京康吉森技術有限公司 Beijing Consen Technology Company Limited *(Note i)* (Formerly known as "Beijing Shangfang Yunshui Software Technology Company Limited", 北京上方雲水軟件技術有限公司) | PRC | Registered capital RMB10,000,000 | 100 | 100 | Software development and integrated circuit design, as well as technology services |
| 北京恒泰日新軟件技術有限公司 Beijing Hengtai *(Note i)* | PRC | Registered capital RMB10,000,000 | 100 | 100 | Software development and integrated circuit design |
| 北京康吉森節能環保技術有限公司 Beijing Consen Energy and Environmental Technology Company Limited *(Note i)* | PRC | Registered capital RMB20,000,000 | 100 | – | Provision of energy-saving and environmental technology services |
| 北京海澱中京工程設計軟件技術有限公司 Zhongjing *(Note i)* | PRC | Registered capital RMB50,000,000 | 70 | 70 | Engineering design and consulting services |

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share capital/ registered capital | Equity interest attributable to the Group as at 31 December 2015 % | 2014 % | Principal activities |
|---|---|---|---|---|---|
| 南京華士電子科技有限公司 Nanjing Electronic Scientific *(Note i)* | PRC | Registered capital RMB21,203,265 | 51 | 51 | Design, production and sale of railway traction control and auxiliary electricity supply systems |
| 南京華士電源設備有限公司 Nanjing Power Equipment *(Note i)* | PRC | Registered capital RMB46,800,000 | 51 | 51 | Design, production and sale of railway traction control and auxiliary electricity supply systems |
| 南京華航軟件科技有限公司 Nanjing Huahang Software Technology Company Limited *(Note i and iv)* ("Nanjing Huahang Software") | PRC | Registered capital RMB500,000 | 51 | – | Software programming and technology services |
| 吳忠儀錶有限責任公司 Wuzhong *(Note i)* | PRC | Registered capital RMB320,000,000 | 100 | 100 | Manufacture of industrial control valves |
| 寧夏朗盛精密製造技術有限公司 Ningxia Langsheng Foundry Company Limited *(Note i)* | PRC | Registered capital RMB100,000,000 | 100 | 100 | Manufacture of steel-casting |
| 寧夏吳忠儀錶上海有限公司 Wuzhong Instrument (Shanghai) Company Limited *(Note i)* | PRC | Registered capital RMB10,000,000 | 100 | 100 | Manufacture of industrial control valves |
| 北京吳忠儀錶銷售有限公司 Wuzhong Sales (Beijing) Company Limited *(Note i)* | PRC | Registered capital RMB10,000,000 | 100 | 100 | Sales of industrial control valves |
| 寧夏菲麥森流程控制技術有限公司 Ningxia Fei Mai Sen *(Note i)* | PRC | Registered capital RMB5,000,000 | 100 | 100 | Software development and design of process control products |
| 吳忠儀錶(銀川)工程技術服務有限公司 Wuzhong Engineering Services (Yinchuan) Company Limited *(Note i)* | PRC | Registered capital RMB20,000,000 | 100 | 100 | Provision of engineering services |

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid up share capital/ registered capital | Equity interest attributable to the Group as at 31 December 2015 % | 2014 % | Principal activities |
|---|---|---|---|---|---|
| 吳忠儀錶產業基地開發有限公司 Wuzhong Instrument Industrial Base Development Company Limited *(Note i)* | PRC | Registered capital RMB100,000,000 | 100 | – | Manufacture of industrial control valves, infrastructure activities as well as of development and sale of real estate |
| 北京中京實華新能源科技有限公司 Beijing Zhongjing Shihua New Energy Technology Company Limited *(Note i)* ("Zhongjing Shihua") | PRC | Registered capital RMB72,550,000 | 51 | 51 | Production of biodiesel fuel and related technology services |
| 北京中京征和環保服務有限公司 Beijing Zhongjing Zhenghe Environmental Services Company Limited *(Note i and v)* ("Zhongjing Zhenghe") | PRC | Registered capital RMB10,000,000 | 49.5 | 49.5 | Collection and transportation of biodiesel base oil materials |
| 拉薩經濟技術開發區康吉森投資有限公司 Lhasa Consen Investment Company Limited *(Note i)* | PRC | Registered capital RMB1,000,000 | 100 | 100 | Investment management and trading, as well as technology service |
| 西藏康吉森電子科技有限公司 Tibet Consen Electronic Technology Company Limited *(Note i)* | PRC | Registered capital RMB282,000,000 | 100 | – | Design, development and sales of instrumentation and control products, as well as technology services |
| Tri-control | Hong Kong | Ordinary shares HK$10,000,000 | 100 | 100 | Trading of automation products |
| 康吉森國際(香港)有限公司 Consen International (Hong Kong) Limited | Hong Kong | Ordinary shares HK$20,000,000 | 100 | 100 | Trading of automation products |
| 冠東資源有限公司 Crown East Resources Limited | Hong Kong | Ordinary shares US$44,600,000 | 100 | – | Trading of automation products |
| 優致投資有限公司 Wind Time Investment Limited | Hong Kong | Ordinary shares US$37,400,000 | 100 | – | Trading of automation products |

*Notes:*

(i) The English names of these PRC companies are for reference only and not registered.

(ii) These subsidiaries are registered as wholly foreign-owned enterprise under PRC law.

(iii) Heng Youlian has been Beijing Jiaoda Microunion's wholly-owned subsidiary since incorporation, which has been disposed during the current year (Note 12).

(iv) Incorporated by Nanjing Electronic Scientific, 100% of the registered capital of Nanjing Huahang Software is directly held and controlled by Nanjing Electronic Scientific.

(v) Incorporated by Zhongjing Shihua and a non-controlling shareholder, 97.06% of the registered capital of Zhongjing Zhenghe is directly held and controlled by Zhongjing Shihua.

All of the above subsidiaries, except for Tricon and Trisen, are indirectly held by the Company.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests.

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Beijing Jiaoda Microunion | Beijing | – | 23.3% | 3,571 | 8,372 | – | 133,110 |
| Individually immaterial subsidiaries with non-controlling interests | | | | | | 148,171 | 192,886 |
| | | | | | | 148,171 | 325,996 |

During the current and prior years, the only subsidiary of the Company that has material non-controlling interests is Beijing Jiaoda Microunion. The financial information in respect of Beijing Jiaoda Microunion has been included in "discontinued operations" as set out in Note 12.

## 3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2016

Set out below is the financial information of the Group as extracted from the published unaudited financial results of the Group for the six months ended 30 June 2016.

**Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income**
*For the six months ended 30 June 2016*

| | | Six months ended 30 June | |
|---|---|---|---|
| | *NOTES* | **2016** | **2015** |
| | | *RMB'000* | *RMB'000* |
| | | (unaudited) | (unaudited) |
| Continuing operations | | | |
| Revenue | *3* | 387,380 | 768,555 |
| Cost of sales | | (314,815) | (500,231) |
| Gross profit | | 72,565 | 268,324 |
| Other income | *4* | 6,393 | 12,413 |
| Other gains and losses | *5* | (27,362) | (32,631) |
| Selling and distribution expenses | | (51,537) | (67,215) |
| Administrative expenses | | (95,010) | (103,344) |
| Research and development expenses | | (43,507) | (36,399) |
| Other expenses | | (348) | (241) |
| Finance costs | *6* | (26,222) | (61,351) |
| Share of results of associates | | (1,692) | 60 |
| Share of results of a joint venture | | 4,903 | 936 |
| Loss before taxation | | (161,817) | (19,448) |
| Income tax expense | *7* | (363) | (16,048) |
| Loss for the period from continuing operations | *8* | (162,180) | (35,496) |
| Discontinued operations | | | |
| Profit for the period from discontinued operations | *9* | – | 217,261 |
| (Loss) profit for the period | | (162,180) | 181,765 |

| | NOTES | Six months ended 30 June 2016 RMB'000 (unaudited) | 2015 RMB'000 (unaudited) |
|---|---|---|---|
| Other comprehensive (expense) income for the period (net of tax) | | | |
| Items that maybe subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | (3,864) | 619 |
| Share of translation reserve of a joint venture | | 340 | (269) |
| | | (3,524) | 350 |
| Total comprehensive (expense) income for the period | | (165,704) | 182,115 |
| (Loss) profit for the period attributable to: | | | |
| Owners of the Company | | (136,899) | 186,113 |
| Non-controlling interests | | (25,281) | (4,348) |
| | | (162,180) | 181,765 |
| Total comprehensive (expense) income attributable to: | | | |
| Owners of the Company | | (140,423) | 186,463 |
| Non-controlling interests | | (25,281) | (4,348) |
| | | (165,704) | 182,115 |
| (Loss) earnings per share | *11* | | |
| From continuing and discontinued operations | | | |
| Basic and diluted (RMB cents) | | (13.34) | 18.14 |
| From continuing operations | | | |
| Basic and diluted (RMB cents) | | (13.34) | (2.68) |

**Condensed Consolidated Statement of Financial Position**

*At 30 June 2016*

| | *NOTES* | **At 30 June 2016** *RMB'000* (unaudited) | **At 31 December 2015** *RMB'000* (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | *12* | 657,381 | 633,423 |
| Deposit for acquisition of property, plant and equipment | | 11,500 | 5,223 |
| Prepaid lease payments – non-current portion | | 271,417 | 136,315 |
| Intangible assets | | 75,357 | 81,810 |
| Goodwill | | 8,890 | 8,890 |
| Interests in associates | | 21,400 | 23,092 |
| Interests in a joint venture | | 10,676 | 5,433 |
| Pledged bank deposits | | 1,216 | 4,731 |
| Deferred tax assets | | 46,836 | 32,209 |
| Available-for-sale financial assets | | 64,217 | 64,217 |
| | | 1,168,890 | 995,343 |
| Current assets | | | |
| Prepaid lease payments – current portion | | 4,033 | 3,434 |
| Inventories | *13* | 744,026 | 635,131 |
| Trade and bills receivables | *14* | 1,369,999 | 1,602,558 |
| Other receivables and prepayments | | 209,996 | 176,954 |
| Pledged bank deposits | | 43,869 | 73,576 |
| Bank balances and cash | | 168,824 | 601,241 |
| | | 2,540,747 | 3,092,894 |
| Current liabilities | | | |
| Trade and bills payables | *15* | 465,787 | 502,410 |
| Other payables, deposits received and accruals | | 241,899 | 302,928 |
| Dividend payable | | 6 | |
| Income tax payable | | 12,611 | 12,566 |
| Bank borrowings – due within one year | | 444,971 | 283,551 |
| Guaranteed notes – due within one year | *16* | – | 424,817 |
| | | 1,165,274 | 1,526,308 |
| Net current assets | | 1,375,473 | 1,566,586 |
| Total assets less current liabilities | | 2,544,363 | 2,561,929 |

| | NOTES | At 30 June 2016 RMB'000 (unaudited) | At 31 December 2015 RMB'000 (audited) |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | | 9,548 | 9,548 |
| Share premium and reserves | | 1,623,834 | 1,763,462 |
| Equity attributable to owners of the Company | | 1,633,382 | 1,773,010 |
| Non-controlling interests | | 122,890 | 148,171 |
| Total equity | | 1,756,272 | 1,921,181 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 16,640 | 16,640 |
| Bank borrowings – due after one year | | 155,000 | 160,000 |
| Guaranteed notes – due after one year | *16* | 195,949 | 191,358 |
| Long term payable | | 100,000 | 100,000 |
| Deferred income | *17* | 320,502 | 172,750 |
| | | 788,091 | 640,748 |
| Total equity and non-current liabilities | | 2,544,363 | 2,561,929 |

**Condensed Consolidated Statement of Changes in Equity**
*For the six months ended 30 June 2016*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *RMB'000* | Share premium *RMB'000* | Other reserve *RMB'000* | Statutory surplus reserves *RMB'000* *(Note)* | Contribution from owners *RMB'000* | Translation reserve *RMB'000* | Share option reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| For the six months ended 30 June 2016 (unaudited) | | | | | | | | | | | |
| At 1 January 2016 | 9,548 | 648,367 | 34,666 | 182,499 | 619 | 10,014 | 4,911 | 882,386 | 1,773,010 | 148,171 | 1,921,181 |
| Loss for the period | – | – | – | – | – | – | – | (136,899) | (136,899) | (25,281) | (162,180) |
| Exchange difference arising on translation of foreign operations | – | – | – | – | – | (3,864) | – | – | (3,864) | – | (3,864) |
| Share of translation reserve of a joint venture | – | – | – | – | – | 340 | – | – | 340 | – | 340 |
| Total comprehensive (expense) income for the period | – | – | – | – | – | (3,524) | – | (136,899) | (140,423) | (25,281) | (165,704) |
| Recognition of equity-settled share-based payments *(Note 20)* | – | – | – | – | – | – | 795 | – | 795 | – | 795 |
| At 30 June 2016 | 9,548 | 648,367 | 34,666 | 182,499 | 619 | 6,490 | 5,706 | 745,487 | 1,633,382 | 122,890 | 1,756,272 |
| For the six months ended 30 June 2015 (unaudited) | | | | | | | | | | | |
| At 1 January 2015 | 9,548 | 648,367 | 34,666 | 165,464 | 619 | 11,072 | 1,735 | 1,004,535 | 1,876,006 | 325,996 | 2,202,002 |
| Profit (loss) for the period | – | – | – | – | – | – | – | 186,113 | 186,113 | (4,348) | 181,765 |
| Exchange difference arising on translation of foreign operations | – | – | – | – | – | 619 | – | – | 619 | – | 619 |
| Share of translation reserve of a joint venture | – | – | – | – | – | (269) | – | – | (269) | – | (269) |
| Total comprehensive income (expense) for the period | – | – | – | – | – | 350 | – | 186,113 | 186,463 | (4,348) | 182,115 |
| Recognition of equity-settled share-based payments *(Note 20)* | – | – | – | – | – | – | 1,588 | – | 1,588 | – | 1,588 |
| Derecognised on disposal of a subsidiary *(Note 9)* | – | – | – | (43,440) | – | – | – | 43,440 | – | (136,681) | (136,681) |
| At 30 June 2015 | 9,548 | 648,367 | 34,666 | 122,024 | 619 | 11,422 | 3,323 | 1,234,088 | 2,064,057 | 184,967 | 2,249,024 |

*Note:* As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), before distribution of profit each year, the subsidiaries established in the PRC shall set aside 10% of their profit derived in accordance with the generally accepted accounting principles in the PRC to the statutory surplus reserves. The statutory surplus reserves can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

**Condensed Consolidated Statement of Cash Flows**
*For the six months ended 30 June 2016*

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (unaudited) |
| Operating activities | | |
| Net cash (used in) generated from operating activities | (87,207) | 231 |
| Investing activities | | |
| Interest received | 997 | 1,988 |
| Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment | (57,626) | (7,437) |
| Increase in prepaid lease payment | (137,569) | (33,347) |
| Development costs paid | – | (15,056) |
| Proceeds on disposal of property, plant and equipment | 1,518 | 9 |
| Net cash inflow on disposal of a subsidiary | – | 765,373 |
| Transaction cost paid for disposal of a subsidiary | (5,000) | (4,197) |
| Income tax paid for disposal of a subsidiary | – | (21,326) |
| Receipt of government grants | 99,254 | 32,376 |
| Receipt of relocation compensation | 30,800 | 30,800 |
| Placement of pledged bank deposits | (4,610) | (55,092) |
| Withdrawal of pledged bank deposits | 37,832 | 70,867 |
| Net cash (used in) generated from investing activities | (34,404) | 764,958 |
| Financing activities | | |
| Bank borrowings raised | 411,471 | 247,898 |
| Repayments of bank borrowings | (255,051) | (292,847) |
| Interest paid | (34,906) | (62,820) |
| Repayments of guaranteed notes including early redemption premium | (434,291) | (759,282) |
| Net cash used in financing activities | (312,777) | (867,051) |
| Net decrease in cash and cash equivalents | (434,388) | (101,862) |
| Cash and cash equivalents at 1 January | 601,241 | 395,231 |
| Effect of foreign exchange rate changes | 1,971 | (255) |
| Cash and cash equivalents at 30 June, represented by bank balances and cash | 168,824 | 293,114 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2016*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statement of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34, Interim Financial Reporting. The condensed consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") that are relevant, among others, for the preparation of the Group's condensed consolidated financial statements.

| | |
|---|---|
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants |
| Amendments to IAS 27 | Equity Method in Separate Financial Statements |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

### 3. REVENUE AND SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results relating to continuing operations by reportable and operating segment for the period under review:

**Six months ended 30 June 2016 (unaudited)**

| | Petrochemical<br>*RMB'000* | Railway<br>*RMB'000* | Consolidated<br>*RMB'000* |
|---|---|---|---|
| Revenue | 338,694 | 48,686 | 387,380 |
| Segment loss before taxation | (105,375) | (32,753) | (138,128) |
| Income tax expense | 393 | (756) | (363) |
| Segment loss | (104,982) | (33,509) | (138,491) |
| Unallocated other income | | | 292 |
| Unallocated other gains and losses | | | (4,928) |
| Unallocated administrative expenses | | | (5,377) |
| Unallocated finance costs | | | (13,676) |
| Loss for the period (continuing operations) | | | (162,180) |

**Six months ended 30 June 2015 (unaudited)**

| | Petrochemical<br>*RMB'000* | Railway<br>*RMB'000* | Consolidated<br>*RMB'000* |
|---|---|---|---|
| Revenue | 691,948 | 76,607 | 768,555 |
| Segment profit (loss) before taxation | 85,189 | (19,183) | 66,006 |
| Income tax expense | (16,048) | – | (16,048) |
| Segment profit (loss) | 69,141 | (19,183) | 49,958 |
| Unallocated other income | | | 2 |
| Unallocated other gains and losses | | | (25,933) |
| Unallocated administrative expenses | | | (7,592) |
| Unallocated finance costs | | | (51,931) |
| Loss for the period (continuing operations) | | | (35,496) |

All of the segment revenue reported above is from external customers.

There was no inter-segment revenue for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

| | 30 June 2016 | 31 December 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (audited) |
| **Segment assets** | | |
| Petrochemical | 3,031,865 | 3,167,150 |
| Railway | 633,670 | 678,544 |
| Total segment assets | 3,665,535 | 3,845,694 |
| Other assets | 44,102 | 242,543 |
| Consolidated assets | 3,709,637 | 4,088,237 |
| **Segment liabilities** | | |
| Petrochemical | 1,387,008 | 1,183,360 |
| Railway | 360,922 | 345,244 |
| Total segment liabilities | 1,747,930 | 1,528,604 |
| Guaranteed notes | 195,949 | 616,175 |
| Other liabilities | 9,486 | 22,277 |
| Consolidated liabilities | 1,953,365 | 2,167,056 |

## 4. OTHER INCOME

| | Six months ended 30 June 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (unaudited) |
| Other income relating to continuing operations includes: | | |
| Bank interest income | 997 | 1,835 |

**5. OTHER GAINS AND LOSSES**

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (unaudited) |
| Other (gains) losses from continuing operations comprise: | | |
| Net foreign exchange losses *(Note)* | 3,855 | 15,648 |
| (Gain) loss on disposal of property, plant and equipment | (39) | 5 |
| Early redemption premium of guaranteed notes *(Note 16)* | 5,342 | 14,220 |
| Loss on embedded derivative financial asset | – | 47 |
| Allowance on bad and doubtful debts | 14,413 | 2,711 |
| Allowance on inventories | 3,791 | – |
| | 27,362 | 32,631 |

*Note:* The amount includes the exchange loss relating to the translation of guaranteed notes from United States Dollar ("US$") to RMB amounting to RMB4,928,000 during the current interim period (six months ended 30 June 2015: RMB11,220,000).

**6. FINANCE COSTS**

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (unaudited) |
| Financial costs relating to continuing operations comprise: | | |
| Interest on bank borrowings | 14,796 | 9,420 |
| Interest on guaranteed notes | 13,676 | 51,931 |
| Interest on long term payable | 600 | – |
| | 29,072 | 61,351 |
| Less: amount capitalised under construction in progress | (2,850) | – |
| | 26,222 | 61,351 |

During the current interim period, interests capitalised of RMB2,850,000 arose from bank borrowings specifically for the purpose of obtaining qualifying assets with a capitalisation rate of 5.70% per annum.

No interest was capitalised during the prior interim period.

**7. INCOME TAXES RELATING TO CONTINUING OPERATIONS**

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (unaudited) |
| Current tax charge of continuing operations comprises: | | |
| PRC enterprise income tax | 14,979 | 14,017 |
| Hong Kong Profits Tax | – | 2,193 |
| Other jurisdictions | 11 | 49 |
| | 14,990 | 16,259 |
| Deferred tax credit | (14,627) | (211) |
| | 363 | 16,048 |

Certain subsidiaries of the Company operating in the PRC are eligible for tax holiday and concession. The tax holiday and concession are in the form of two years tax exemption from the first profit-making year, followed by 50% reduction of the applicable tax rate in the following three years.

The negative effective tax rates for the current and prior interim periods are mainly attributable to the current tax losses and deductible temporary differences of certain subsidiaries not recognised as deferred tax assets due to the unpredictability of future profit streams of respective subsidiaries.

**8. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS**

Loss for the period from continuing operations has been arrived at after charging the following items:

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (unaudited) |
| Depreciation of property, plant and equipment | 22,925 | 20,530 |
| Amortisation of intangible assets included in: | | |
| – Cost of sales | 6,453 | 5,905 |
| – Administrative expenses | – | 3,894 |
| | 6,453 | 9,799 |
| Release of prepaid lease payment | 1,868 | 1,550 |
| Operating lease rentals in respect of rented premises | 9,371 | 6,149 |

**9. DISCONTINUED OPERATIONS**

On 26 May 2015, the Group completed the disposal of its 76.7% equity interest in Beijing Jiaoda Microunion Technology Company Limited ("Beijing Jiaoda Microunion") at a cash consideration of RMB811,650,000. Beijing Jiaoda Microunion engages in the design, development and sales of railway signaling systems in the PRC.

The results of the discontinued operations included in the profit for the prior interim period are set out below.

**Profit for the period from discontinued operations**

| | **Period from 1 January 2015 to 26 May 2015** *RMB'000* (unaudited) |
|---|---|
| Revenue | 67,949 |
| Cost of sales | (33,715) |
| Gross profit | 34,234 |
| Other income | 9,681 |
| Other gains and losses | 658 |
| Selling and distribution expenses | (3,804) |
| Administrative expenses | (14,797) |
| Research and development expenses | (6,282) |
| Other expenses | (1,566) |
| Finance costs | (114) |
| Profit before taxation | 18,010 |
| Income tax expense | (2,684) |
| | 15,326 |
| Gain recognised on disposal of a subsidiary | 269,947 |
| Attributable income tax expense | (68,012) |
| Profit for the period from discontinued operations | 217,261 |
| – Attributable to owners of the Company | 213,690 |

**Cash flows from discontinued operations**

| | **Period from 1 January 2015 to 26 May 2015** *RMB'000* (unaudited) |
|---|---|
| Net cash inflows from operating activities | 1,872 |
| Net cash outflows from investing activities | (20,412) |
| Net cash outflows from financing activities | (47,412) |
| Net cash outflows | (65,952) |

The assets and liabilities of Beijing Jiaoda Microunion derecognised at the date of disposal were as follows:

| | *RMB'000* |
|---|---|
| Non-current assets | |
| Property, plant and equipment | 8,681 |
| Intangible assets | 260,738 |
| Deferred tax assets | 24,961 |
| | 294,380 |
| Current assets | |
| Inventories | 76,467 |
| Trade and bills receivables | 236,402 |
| Other receivables and prepayments | 15,466 |
| Amounts due from customers for contract work | 44,951 |
| Pledged bank deposits | 29,145 |
| Bank balances and cash | 46,277 |
| | 448,708 |
| Current liabilities | |
| Trade and bills payables | 78,619 |
| Other payables, deposits received and accruals | 42,817 |
| Income tax payable | 533 |
| | 121,969 |
| Non-current liabilities | |
| Deferred tax liabilities | 34,504 |
| Net assets disposed of | 586,615 |

**Gain on disposal of a subsidiary**

| | *RMB'000* |
|---|---|
| Consideration received | 811,650 |
| Net assets disposed of | (586,615) |
| Non-controlling interests | 136,681 |
| Goodwill derecognised on the disposal | (72,777) |
| Transaction cost of the disposal | (18,992) |
| Gain on the disposal before taxation | 269,947 |

**Net cash inflow on disposal of a subsidiary**

| | *RMB'000* |
|---|---|
| Consideration received | 811,650 |
| Less: cash and cash equivalent balances disposed of | (46,277) |
| | 765,373 |

**10. DIVIDENDS**

No dividends have been declared in the current or prior interim periods.

The directors of the Company (the "Directors") do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

**11. (LOSS) EARNINGS PER SHARE**

| | **Six months ended 30 June** | |
|---|---|---|
| | **2016** | **2015** |
| | *RMB cents* | *RMB cents* |
| | (unaudited) | (unaudited) |
| Basic/diluted (loss) earnings per share | | |
| From continuing operations | (13.34) | (2.68) |
| From discontinued operations | – | 20.82 |
| Total basic/diluted (loss) earnings per share | (13.34) | 18.14 |

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

| | **Six months ended 30 June** | |
|---|---|---|
| **(Loss) earnings** | **2016** | **2015** |
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (unaudited) |
| Attributable to the owners of the Company: | | |
| (Loss) profit for the period | (136,899) | 186,113 |
| Less: profit for the period from discontinued operations | – | (213,690) |
| Loss used for the purposes of basic and diluted loss per share from continuing operations | (136,899) | (27,577) |

| | **Six months ended 30 June** | |
|---|---|---|
| **Weighted average number of shares** | **2016** | **2015** |
| | *'000 shares* | *'000 shares* |
| | (unaudited) | (unaudited) |
| Number of ordinary shares for the purpose of basic (loss) earnings per share | 1,026,264 | 1,026,264 |

The calculation of diluted earnings per share did not take into account the share options of the Company issued on 24 July 2014 (Note 20) because the exercise price of the share options was higher than the average market price of the Company's shares throughout both the current and the prior interim periods.

**12. PROPERTY, PLANT AND EQUIPMENT**

During the current interim period, the Group incurred approximately RMB36,634,000 on the construction of its new factory plant, office premises and building improvements (six months ended 30 June 2015: RMB2,540,000).

In addition, the Group purchased property, plant and equipment amounting to RMB11,728,000 (six months ended 30 June 2015: RMB12,242,000) from third parties.

**13. INVENTORIES**

| | **30 June 2016** | **31 December 2015** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (audited) |
| Raw materials | 557,834 | 486,822 |
| Work in progress | 110,623 | 101,119 |
| Finished goods | 75,569 | 47,190 |
| | 744,026 | 635,131 |

**14. TRADE AND BILLS RECEIVABLES**

The normal credit period except for the retention receivables granted to the Group's customers is 90 to 365 days.

| | **30 June 2016** | **31 December 2015** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (audited) |
| Trade receivables | 1,363,047 | 1,530,466 |
| Less: impairment losses on trade receivables | (193,801) | (178,484) |
| | 1,169,246 | 1,351,982 |
| Bills receivable | 200,753 | 250,576 |
| | 1,369,999 | 1,602,558 |

The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

| | **30 June 2016** *RMB'000* (unaudited) | **31 December 2015** *RMB'000* (audited) |
|---|---|---|
| 0 – 90 days | 340,580 | 646,311 |
| 91 – 180 days | 250,878 | 335,337 |
| 181 – 365 days | 396,793 | 258,571 |
| 1 – 2 years | 381,748 | 345,980 |
| 2 – 3 years | – | 16,359 |
| | 1,369,999 | 1,602,558 |

**15. TRADE AND BILLS PAYABLES**

The average credit period on purchases is 90 to 180 days. The following is an aged analysis of trade and bills payables based on the invoice date at the end of the reporting period:

| | **30 June 2016** *RMB'000* (unaudited) | **31 December 2015** *RMB'000* (audited) |
|---|---|---|
| 0 – 90 days | 168,906 | 242,409 |
| 91 – 180 days | 128,731 | 143,222 |
| 181 – 365 days | 94,851 | 49,529 |
| 1 – 2 years | 50,536 | 50,779 |
| Over 2 years | 22,763 | 16,471 |
| | 465,787 | 502,410 |

**16. GUARANTEED NOTES**

| | **30 June 2016** *RMB'000* (unaudited) | **31 December 2015** *RMB'000* (audited) |
|---|---|---|
| US$200,000,000 guaranteed notes due 2016 (the "2016 Guaranteed Notes") | – | 424,817 |
| US$30,000,000 guaranteed notes due 2018 (the "2018 Guaranteed Notes") | 195,949 | 191,358 |
| | 195,949 | 616,175 |

On 7 January 2016, the Company early redeemed 64% of the outstanding principal amount of the 2016 Guaranteed Notes of US$42,000,000 (equivalent to approximately RMB275,713,000) at a premium of US$813,750 (equivalent to approximately RMB5,342,000) and repaid the attributable accrued and unpaid interest of US$732,500 (equivalent to approximately RMB4,809,000). The premium of RMB5,342,000 was expensed and included in "other gains and losses" in the condensed consolidated statement of profit or loss and other comprehensive income (Note 5).

On the maturity date of 20 April 2016, the Company repaid the remaining outstanding principal amount of the 2016 Guaranteed Notes of US$23,610,000 (equivalent to approximately RMB153,236,000) and all the remaining accrued and unpaid interest of US$771,500 (equivalent to approximately RMB5,007,000).

## 17. DEFERRED INCOME

| | Government grants related to assets | Government grants related to income | Relocation compensation | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note a)* | *(Note b)* | *(Note c)* | |
| At 31 December 2015 | 118,948 | 3,802 | 50,000 | 172,750 |
| Addition | 99,254 | 1,594 | 50,000 | 150,848 |
| Released to profit or loss | (1,596) | (1,500) | – | (3,096) |
| At 30 June 2016 | 216,606 | 3,896 | 100,000 | 320,502 |

*Notes:*

(a) Deferred income arising from government grant relating to assets represents the government subsidies obtained in relation to the purchase of the land use right and the infrastructure construction, which was included in the condensed consolidated statements of financial position as deferred income and credited to the condensed consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected useful life of the relevant depreciable assets;

(b) Deferred income arising from government grant relating to income represents the government subsidies obtained as compensation for the expenses on technology development when the grants are received and the corresponding research activities have not been accomplished, which was included in deferred income and recognised in profit or loss when the research and development expenses has already been fully incurred.

(c) On 21 May 2015, the Company's subsidiary, Wuzhong Instrument Company Limited has entered into an agreement with the municipal government of Wuzhong City of Ningxia Hui Autonomous Region in the PRC as at a total compensation consideration of approximately RMB200,279,000. The amount of compensation attributable to losses of the land use right, property, plant and unmovable equipment, related expenses, losses from production suspension incurred during the relocation. During the current interim period, the relocation activities have not yet commenced. Accordingly, the aggregate compensation income of RMB100,000,000 received in advance is recorded as deferred income and will be recognised as other income based on the relocation progress subsequently.

## 18. OPERATING LEASES

**The Group as lessee**

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | **30 June 2016** | **31 December 2015** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (audited) |
| Within one year | 14,882 | 15,000 |
| In the second to fifth year inclusive | 10,652 | 5,951 |
| | 25,534 | 20,951 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a lease term ranging from one to five years and rentals are fixed at the date of signing of lease agreements.

## 19. CAPITAL COMMITMENTS

| | **30 June 2016** | **31 December 2015** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | (unaudited) | (audited) |
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment | 88,607 | 78,333 |

## 20. SHARE-BASED PAYMENT TRANSACTIONS

**Equity-settled share option scheme**

At 30 June 2016, the number of shares in respect of which options had been granted and remained outstanding was 102,626,000 (31 December 2015: 102,626,000), representing 10% (31 December 2015: 10%) of the shares of the Company in issue at that date. There is no share option lapsed during the current and prior interim periods.

The following table disclose details of the Company's share options held by the grantees and movements in such holdings under the share option scheme during the interim period:

| | | | | | Number of options ('000) | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of grant | Vesting period | Exercise period | Exercise price | Outstanding At 31 December 2015 | Granted during the period | Exercised/lapsed during the period | Outstanding at 30 June 2016 |
| Tranche 1 | 25 July 2014 | 25 July 2014 to 24 July 2015 | 25 July 2015 to 24 July 2018 | HK$1.60 | 34,209 | – | – | 34,209 |
| Tranche 2 | 25 July 2014 | 25 July 2014 to 24 July 2016 | 25 July 2016 to 24 July 2018 | HK$1.60 | 34,209 | – | – | 34,209 |
| Tranche 3 | 25 July 2014 | 25 July 2014 to 24 July 2017 | 25 July 2017 to 24 July 2018 | HK$1.60 | 34,208 | – | – | 34,208 |
| | | | | | 102,626 | – | – | 102,626 |
| Exercisable at the end of the reporting period | | | | | | | | 34,209 |
| Weighted average exercise price | | | | | HK$1.60 | – | – | HK$1.60 |

During the current interim period, the Group recognised share-based expenses of RMB795,000 (six months ended 30 June 2015: RMB1,588,000).

## 4. INDEBTEDNESS

As at the close of business on 30 June 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of the Composite Document, the Group had total issued debts of RMB895,920,000 and authorised but unissued debt securities of RMB200,000,000. Details of which are as follows:

| | *RMB'000* |
|---|---|
| Issued debts | |
| Bank borrowings | |
| – Secured *(Note i)* and guaranteed *(Note ii)* | 340,000 |
| – Secured *(Note i)* and unguaranteed | 86,500 |
| – Unsecured and guaranteed *(Note ii)* | 173,471 |
| | 599,971 |
| Long term payable, unsecured and guaranteed *(Note ii)* | 100,000 |
| Guaranteed notes, unsecured and guaranteed *(Note ii)* | 195,949 |
| | 895,920 |
| Authorised but unissued debt securities | |
| – Unissued long term debenture *(Note iii)* | 200,000 |

*Notes:*

(i). All the securities pledged for the borrowings are owned by the Group.

(ii). Except for bank borrowings of RMB100,000,000 which are guaranteed by an independent third party, all other guaranteed indebtedness are guaranteed by the Company and/or subsidiaries of the Company.

(iii). On 26 May 2016, the board of directors of an indirect wholly-owned subsidiary of the Company authorised the issuance of non-public debt securities in the PRC in maximum of RMB200,000,000. On 25 June 2016, the Group entered into an agreement with an independent agent to issue in maximum of RMB200,000,000 long-term debenture. The issue is fully underwritten by the issuing agent. Completion of the agreement shall be conditional upon, among others, the Company having obtained the approval by relevant authorities in accordance with applicable laws and governing rules. As at 30 June 2016, the aforementioned long term debenture remains authorised but unissued.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables in the ordinary course of the business, as at the close of business on 30 June 2016, the Group did not have other debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

## 5. MATERIAL CHANGES

Save as disclosed below, the Directors confirm that there has been no material change in the financial and trading position or outlook of the Group since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date:

(i) As disclosed in the interim results announcement of the Company dated 28 July 2016 (the "**Interim Announcement**"), the Group recorded revenue of approximately RMB387.4 million and a net loss from continuing operations of approximately RMB162.2 million for the six months ended 30 June 2016 (the "**Interim Period**"), as compared to revenue of RMB768.6 million and net loss from continuing operations of RMB35.5 million for the corresponding period in 2015. The significant drop in turnover was mainly due to the slower overall demand stemming from slowdown in the overall economy in the PRC and decline in crude oil price. The drop in revenue led to loss in economies of scale, thus resulted in a significant drop in gross profit and increase in loss for the Interim Period;

(ii) during the Interim Period, the Company fully redeemed and repaid the guarantee notes with outstanding amount of approximately RMB424.8 million as at 31 December 2015. As a result, there was a corresponding decrease in bank balances and cash as at 30 June 2016 as compared to that as at 31 December 2015; and

(iii) during the Interim Period, the Group acquired land use right amounting to approximately RMB137.6 million for the second phase of the new manufacturing facilities and offices of the Group and their auxiliary buildings which are mainly used as staff dormitory and quarters. On the other hand, the Group received government subsidies in relation to the acquisition of the land use right of approximately RMB99.3 million. As disclosed in the Interim Announcement, pursuant to an agreement entered into between the Company's subsidiary, Wuzhong Instrument Company Limited, and the municipal government of Wuzhong City of Ningxia Hui Autonomous Region in the PRC on 21 May 2015, the Company received RMB50 million of compensation attributable to losses of the land use right, property, plant and unmovable equipment, related expenses, losses from production suspension incurred during the relocation. These subsidies and compensation were recorded as deferred income in the consolidated statement of financial position of the Group as at 30 June 2016 which will be recognised as other income based on the relocation progress. As at the Latest Practicable Date, the relocation has not yet commenced. As a result, there had been increases in the prepaid lease payments and non-current liabilities as at 30 June 2016 as compared to those as at 31 December 2015.

## 1. RESPONSIBILITY STATEMENT

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

## 2. DISCLOSURE OF INTERESTS AND DEALINGS AS REQUIRED BY THE TAKEOVERS CODE

The Offeror confirms that, as at the Latest Practicable Date:

(i) save as disclosed below, and pursuant to the Consortium Agreement and the Facility Agreement, none of the Offeror, its director or parties acting in concert with any of them owned, controlled or was interested in any Shares or convertible securities, warrants, options or derivatives in respect of any Shares:

| Shareholder | Number of Shares/ underlying shares | Approximate % |
|---|---|---|
| Mr. Xuan *(Note 1)* | 516,233,541 | 50.30 |
| – Offeror | 512,133,541 | 49.90 |
| AACL *(Note 2)* | 512,133,541 | 49.90 |
| Mr. Huang *(Note 3)* | 4,380,000 | 0.43 |
| Mr. Kuang *(Note 3)* | 4,380,000 | 0.43 |
| | 524,993,541 | 51.16 |

*Note:*

1. Out of these 516,233,541 Shares/underlying shares, Mr. Xuan was directly interested in 4,100,000 Shares/underlying shares, 1,000,000 of which were Shares and 3,100,000 of which were the Options held by Mr. Xuan. For the remaining 512,133,541 Shares/underlying shares, 457,933,541 Shares were held by the Offeror and 54,200,000 Shares represented the IU Shares, in respect of which Pengana irrevocably and unconditionally undertook to the Offeror that, among other things, the IU Shareholders would tender their acceptance of the Share Offer upon request pursuant to the Irrevocable Undertaking. The Offeror was wholly-owned by Brightex which was in turn wholly-owned by Mr. Xuan. Therefore, Mr. Xuan was deemed to be interested in all the Shares/underlying shares held by the Offeror.

2. Pursuant to the Consortium Agreement, among other things, all decisions relating to the Offers will be made jointly by the Offeror and AACL. Accordingly, AACL was deemed to be interested in 512,133,541 Shares by virtue of section 317 of the SFO.

3. As at the Latest Practicable Date, each of Mr. Huang and Mr. Kuang was directly interested in 4,380,000 Options.

(ii) save for the Consortium Agreement and the Facility Agreement, no Shares or convertible securities, warrants, options or derivatives of the Company were owned or controlled by a person with whom the Offeror or any party acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, and no such person had dealt in any Shares or convertible securities, warrants, options or derivatives of the Company during the Relevant Period;

(iii) none of the Offeror or parties acting in concert with it had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(iv) save for the SPA, none of the Offeror, the director of the Offeror or parties acting in concert with it had dealt for value in any Shares, convertible securities, warrants, or options of the Company or any derivative in respect of such securities in the Relevant Period; and

(v) save for the Irrevocable Undertaking, the Offeror had not received any other irrevocable commitment to accept or reject the Offers.

## 3. OTHER DISCLOSURES AS REQUIRED BY THE TAKEOVERS CODE

(i) As at the Latest Practicable Date, save for the Consortium Agreement and the Facility Agreement, the Offeror had no intention to enter into, nor had they entered into any agreement, arrangement or understanding, to transfer, charge or pledge the Shares acquired in pursuance of the Offer to any other persons unless otherwise required by the Listing Rules or the Stock Exchange with regard to the minimum public float requirements.

(ii) No benefit will be given to any Director as compensation for loss of office or otherwise in connection with the Offers.

(iii) As at the Latest Practicable Date, save for the Consortium Agreement, the Facility Agreement and the personal guarantee dated 23 June 2016 entered into between Mr. Xuan as the personal guarantor and AACL as the lender, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or parties acting in concert with it and any Director, recent Director, Shareholder or recent Shareholder which had any connection or was dependent upon the Offers.

(iv) As at the Latest Practicable Date, save for the Consortium Agreement, there was no agreement or arrangement to which the Offeror was a party which related to circumstances in which the Offeror may or may not invoke or seek to invoke a pre-condition or a condition to the Offers.

(v) As at the Latest Practicable Date, save for the Consortium Agreement and Facility Agreement, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror and parties acting in concert with it and any other person.

## 4. MISCELLANEOUS

(i) As at the Latest Practicable Date, the sole director of the Offeror was Mr. Xuan Rui Guo.

The registered office of the Offeror is situated at Morgan & Morgan Building, Pasea Estate, Road Town, Tortola, British Virgin Islands.

The correspondence address of the Offeror is Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

(ii) As at the Latest Practicable Date, the board of AACL comprised of 2 directors, namely Mr. Meng Liang and Mr. Zhang Yi Kevin.

The registered office of AACL is situated at the offices of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KYI-9008, Cayman Islands.

(iii) The registered office of Somerley Capital Limited is 20/F, China Building, 29 Queen's Road Central, Hong Kong.

(iv) The English text of this Composite Document and the Forms of Acceptance shall prevail over their respective Chinese texts in the case of inconsistency.

## 1. RESPONSIBILITY STATEMENT

The Directors (other than Mr. Sui Yong Bin) jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Concert Group, the terms and conditions of the Offers and intention of the Offeror in relation to the Group), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by Concert Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The Company has obtained consent from the Executive under Rule 9.4 of the Takeovers Code to exclude Mr. Sui Yong Bin, an independent non-executive Director, from the responsibility statement given in all documents issued or to be issued by the Company in relation to the Offers due to his medical condition.

## 2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 3,000,000,000 | Shares | 30,000,000.00 |
| *Issued and fully paid-up:* | | *HK$* |
| 1,026,263,729 | Shares | 10,262,637.29 |

All issued Shares are fully paid-up and rank pari passu with each other in all respects including the rights to voting, dividends and return of capital.

The Company has not issued any Shares since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up, up to the Latest Practicable Date.

As at the Latest Practicable Date, there were 102,626,000 Options outstanding entitling the Optionholders to subscribe for the Shares pursuant to the Share Option Scheme. The Options have a validity period from 25 July 2014 to 24 July 2018 and have been and will be exercisable in the following manner: (i) up to approximately one third of the Options became exercisable on 25 July 2015; (ii) up to approximately one third of the Options became exercisable on 25 July 2016; (iii) up to approximately one third of the Options will become exercisable commencing on 25 July 2017, provided that relevant performance targets are achieved and the closing price of the Share on the trading day immediately preceding the date of exercise is HK$2.40 or above. As, among other things, the closing price per Share of HK$1.18 as quoted on the Stock Exchange on 29 July 2016, being the last trading day immediately preceding the Latest Practicable Date, was below HK$2.40, no Options were exercisable as at the Latest Practicable Date.

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional, the Optionholders may exercise the Options within 21 days of the notice of the Offeror (to the extent which the Options have become exercisable on the date of the notice of the Offeror and not already exercised) to its full extent or to the extent specified in such notice. The Options not exercised at the expiry of such 21-day period shall lapse and the Options which have not become exercisable prior to the date of the aforesaid notice of the Offeror will not become exercisable as a result of the Share Offer becoming unconditional.

Save as aforesaid, the Company has no outstanding shares, options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other types of equity interest in issue.

## 3. MARKET PRICES

The table below sets out the closing price of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; (iii) 23 June 2016, being the last trading day of the Shares prior to the publication of the Joint Announcement; and (iv) the Latest Practicable Date:

| **Date** | **Closing price per Share** *HK$* |
|---|---|
| **2015** | |
| 30 October 2015 | 0.85 |
| 30 November 2015 | 0.90 |
| 31 December 2015 | 0.86 |
| **2016** | |
| 29 January 2016 | 0.79 |
| 29 February 2016 | 0.75 |
| 31 March 2016 | 1.00 |
| 11 April 2016 (Last Trading Day) | 1.01 |
| 28 April 2016 | 1.11 |
| 31 May 2016 | 1.08 |
| 23 June 2016 (last trading day prior to the publication of the Joint Announcement) | 1.08 |
| 30 June 2016 | 1.18 |
| 29 July 2016 | 1.18 |
| 1 August 2016 (Latest Practicable Date) | 1.19 |

During the Relevant Period, the highest closing price per Share quoted on the Stock Exchange was HK$1.20 on 11 July 2016, 12 July 2016, 14 July 2016, 15 July 2016, 18 July 2016, 20 July 2016, 21 July 2016 and 22 July 2016 and the lowest closing price per Share during the Relevant Period quoted on the Stock Exchange was HK$0.71 on 19 February 2016 and 22 February 2016.

## 4. DISCLOSURE OF INTERESTS

For the purpose of paragraphs 4 to 6 in this appendix, "interested" has the same meaning as ascribed to it in Part XV of the SFO.

### (a) Interests of the Directors in shares

As at the Latest Practicable Date, certain Directors had interests in the Shares and in the shares of the Offeror, the particulars of which were as follows:

| | Number of shares | | | |
|---|---|---|---|---|
| | **Personal interest** | **Corporate interest** | **Total** | **Approximate % of the relevant issued share capital as at the Latest Practicable Date** |
| **Shares in the Company** | | | | |
| Mr. Xuan | 1,000,000 | 512,133,541 *(Note 1)* | 513,133,541 | 50.00% |
| **Shares in the Offeror** | | | | |
| Mr. Xuan | – | 1 *(Note 2)* | 1 | 100.00% |

*Note:*

1. Out of these 512,133,541 Shares, 457,933,541 Shares were held by the Offeror and 54,200,000 Shares represented the IU Shares, in respect of which Pengana irrevocably and unconditionally undertook to the Offeror that, among other things, the IU Shareholders would tender their acceptance of the Share Offer upon request pursuant to the Irrevocable Undertaking. The Offeror was a wholly-owned subsidiary of Brightex which was in turn wholly-owned by Mr. Xuan. Accordingly, Mr. Xuan was deemed to be interested in these 512,133,541 Shares by virtue of the SFO.

2. This one share which represented the entire issued share capital of the Offeror, was held by Brightex which was in turn wholly-owned by Mr. Xuan. Accordingly, Mr. Xuan was deemed to be interested in this share by virtue of the SFO.

**(b) Interests of the Directors in Options**

As at the Latest Practicable Date, certain Directors had personal interests in the Options, the particulars of which were as follows:

| Name | Date of grant | Exercisable period<br>*Note* | Number of Options | Exercise price per Share<br>*HK$* |
|---|---|---|---|---|
| Mr. Xuan | 25 July 2014 | 1 | 3,100,000 | 1.60 |
| Mr. Huang | 25 July 2014 | 1 | 4,380,000 | 1.60 |
| Mr. Kuang | 25 July 2014 | 1 | 4,380,000 | 1.60 |
| Mr. Wang Tai Wen | 25 July 2014 | 1 | 200,000 | 1.60 |
| Mr. Ng Wing Fai | 25 July 2014 | 1 | 200,000 | 1.60 |

*Note:*

1. The Options have been and will be exercisable in the following manner:

   (i) up to approximately one third of the Options became exercisable on 25 July 2015;

   (ii) up to approximately one third of the Options became exercisable on 25 July 2016;

   (iii) up to approximately one third of the Options will become exercisable commencing on 25 July 2017;

   provided that the relevant performance targets are achieved, and the closing price of the Share on the trading day immediately preceding the date of exercise is HK$2.4 or above.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had interests in any Shares or shares of the Offeror, or any convertible securities, warrants, options or derivatives in respect of any Shares or shares of the Offeror.

Each of Mr. Wang Tai Wen and Mr. Ng Wing Fai, both independent non-executive Directors, had indicated that he intended to accept the Option Offer for all of his Options.

## 5. DEALINGS IN SECURITIES OF THE COMPANY

(a) During the Relevant Period, save for the transactions contemplated under the SPA which were completed on 24 June 2016, none of the Directors had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(b) During the period commencing from 12 April 2016 and ending on the Latest Practicable Date,

(i) no subsidiaries of the Company, pension funds of any member of the Group or any advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code had any dealings in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(ii) save for the SPA, Consortium Agreement and the Facility Agreement, no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and

(iii) no fund managers connected with the Company had any dealings in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

## 6. DEALINGS IN SECURITIES OF THE OFFEROR

Save for the transfer of the entire issued share capital in the Offeror from Mr. Xuan, being one of the directors of the Company, to Brightex, during the Relevant Period, none of the Company or any of the Directors had any dealings in the shares or any convertible securities, warrants, options or derivatives in respect of any such shares of the Offeror.

## 7. OTHER DISCLOSURE OF INTERESTS AND DEALINGS

As at the Latest Practicable Date,

(a) save as disclosed in the section headed "Disclosure of Interests" in this appendix, neither the Company nor any of the Directors was interested in or owned or controlled any shares or any convertible securities, warrants, options or derivatives in respect of any such shares of the Offeror;

(b) no Shares or any convertible securities, warrants, options or derivatives in respect of any Shares was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of member of the Group or by an adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code;

(c) no Shares or any convertible securities, warrants, options or derivatives in respect of any Shares were managed on a discretionary basis by any fund managers connected with the Company; and

(d) none of the Company or any of the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

## 8. ARRANGEMENTS AFFECTING DIRECTORS

As at the Latest Practicable Date:

(a) no benefit was given to any Directors as compensation for loss of office or otherwise in connection with the Offers;

(b) save for the Consortium Agreement and the personal guarantee dated 23 June 2016 entered into between Mr. Xuan as the personal guarantor and AACL as the lender, there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers;

(c) save for the Consortium Agreement and the Facility Agreement, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code, and any other person; and

(d) save for the SPA, the Consortium Agreement and the Facility Agreement, there was no material contract entered into by the Offeror in which any Director has a material personal interest.

## 9. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or any of its associated companies which (i) had been entered into or amended within 6 months before the commencement of the Offer Period (including both continuous and fixed term contracts); (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

## 10. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

## 11. MATERIAL CONTRACTS

Save as disclosed below, the Group did not enter into any contract which are or may be material other than those entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries within two years immediately preceding the commencement of the Offer Period and up to and including the Latest Practicable Date:

(a) a sale and purchase agreement dated 23 March 2015 entered into between 西藏康吉森電子科技有限公司 (Tibet Consen Electronic Technology Company Limited*) ("**Tibet Consen**") (a subsidiary of the Company), 深圳前海瑞聯二號投資中心(有限合夥)(Shenzhen Qian Hai Rui Lian No. 2 Investment Centre (Limited Partnership)*) ("**Shenzhen Qian Hai**") and 華泰瑞聯基金管理有限公司 (Wah Tai Rui Lian Fund Management Company Limited*) in relation to the disposal of Tibet Consen's 76.7% equity interest in 北京交大微聯科技有限公司 (Beijing Jiaoda Microunion Technology Company Limited*) to Shenzhen Qian Hai for a consideration of RMB811,650,000 the details of which are disclosed in the Company's announcement and circular dated 23 March 2015 and 25 April 2015 respectively; and

(b) the investment agreement dated 21 December 2015 entered into between 北京康吉森自動化設備技術有限責任公司 (Beijing Consen Automation Control Co., Ltd.*) ("**Beijing Consen**") and 吳忠儀表有限責任公司(Wuzhong Instrument Company Limited*) ("**Wuzhong Instrument**") (both subsidiaries of the Company), and 國開發展基金有限公司 (CDB Development Fund Limited*) ("**CDB Development**"), in relation to the making of a capital contribution of RMB100,000,000 in cash by CDB Development to Wuzhong Instrument, the details of which are disclosed in the Company's announcement dated 21 December 2015.

* *for identification purpose only*

## 12. QUALIFICATIONS OF EXPERTS AND CONSENT

The following are the qualification of the experts who have given opinions or advice, which are contained in this Composite Document:

| Name | Qualification |
|---|---|
| Somerley | a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |
| Optima Capital | a corporation licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

Each of the above experts has given and has not withdrawn its written consents to the issue of this Composite Document with the inclusion therein of its letter and references to its name in the form and context in which they respectively appear in this Composite Document.

## 13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:30 a.m. to 5:30 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong; (ii) on the website of the Company (www.cag.com.hk); and (iii) on the website of the SFC (www.sfc.hk) from the date of this Composite Document up to and including the Closing Date:

(a) the memorandum and articles of association of the Offeror;

(b) the memorandum and articles of association of the Company;

(c) the annual reports of the Company for the two years ended 31 December 2015;

(d) the letter from Somerley, the text of which is set out on pages 7 to 22 of this Composite Document;

(e) the letter from the Board, the text of which is set out on pages 23 to 27 of this Composite Document;

(f) the letter from the Independent Board Committee to the Independent Shareholders and Independent Optionholders, the text of which is set out on pages IBC-1 to IBC-2 of this Composite Document;

(g) the letter of advice from Optima Capital, the text of which is set out on pages IFA-1 to IFA-29 of this Composite Document;

(h) the written consents from each of the parties referred to in the section headed "Qualifications of Experts and Consent" in this appendix;

(i) the Irrevocable Undertaking;

(j) the Consortium Agreement; and

(k) the material contracts referred to in the section headed "Material Contracts" in this appendix.

## 14. MISCELLANEOUS

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The secretary of the Company is Mr. Chow Chiu Chi.

(b) The Company's head office and principal place of business in Hong Kong is situated at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

(c) The Company's share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The registered office of Optima Capital is situated at Suite 1501, 15th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong.

(e) The English texts of this Composite Document and the accompanying Forms of Acceptance shall prevail over the respective Chinese texts in case of any inconsistency.