中國自動化集團有限公司

中國自動化

China Automation Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 569)

ANNUAL REPORT **2013**

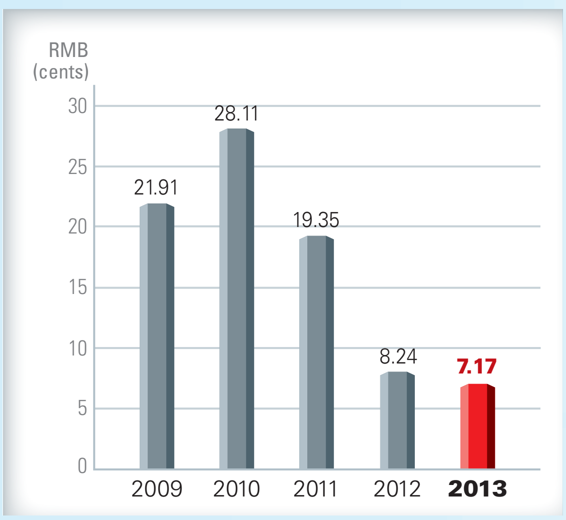
CONTENTS

COMPANY **PROFILE**

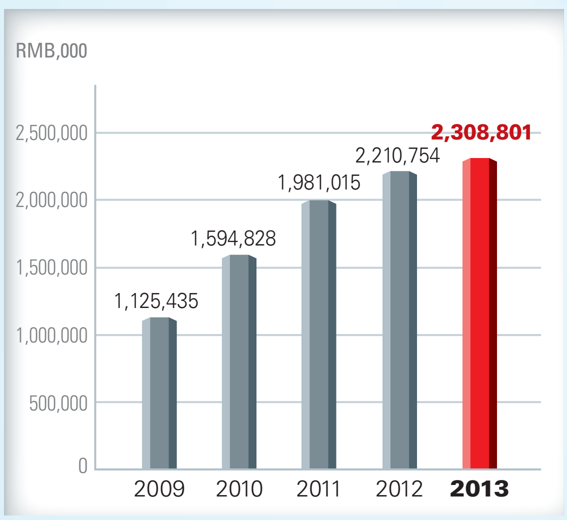
China Automation Group Limited (the "company") was established in 1999 and listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2007. The Company and its subsidiaries (collectively referred to as the "Group") specialize in providing safety and critical control systems, control valves, signaling systems, and traction systems & related products mainly for the petrochemical and railway industries. The Group is the largest integrated solution provider of safety and critical control systems in the petrochemical industry, the largest domestic manufacturer of control valves; and one of the largest solution providers of railway signaling systems as well as a qualified supplier of traction and auxiliary power supply related systems & equipment in the railway industry in the People's Republic of China (the "PRC"). Leveraging on its solid business with four product series, strong engineering capability and extensive distribution network, the Group endeavors to become a large automation control system providers in China.

FINANCIAL **HIGHLIGHTS**

Earnings Per Share-Basic



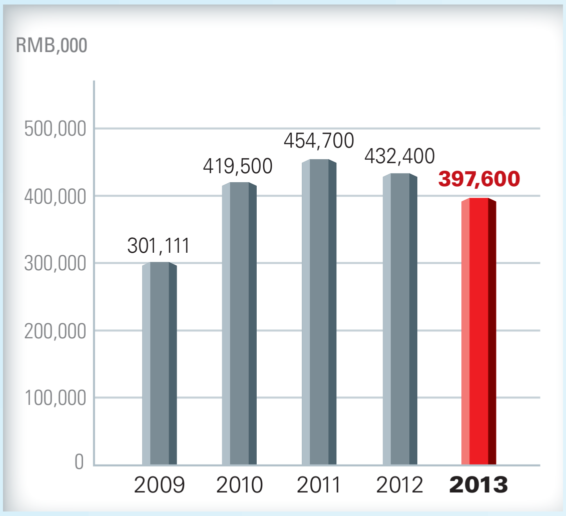
Turnover



	2013 RMB'000	2012 RMB'000	Change (%)
Turnover	**2,308,801**	2,210,754	+4.4
Profit attributable to equity holders of the company	**73,574**	84,583	–13.0
Earnings per share			
– basic	**RMB7.17 cents**	RMB8.24 cents	-13.0
– diluted	**RMB7.17 cents**	RMB8.24 cents	-13.0
Dividend per share*	**Nil**	2.5 HK cents	—

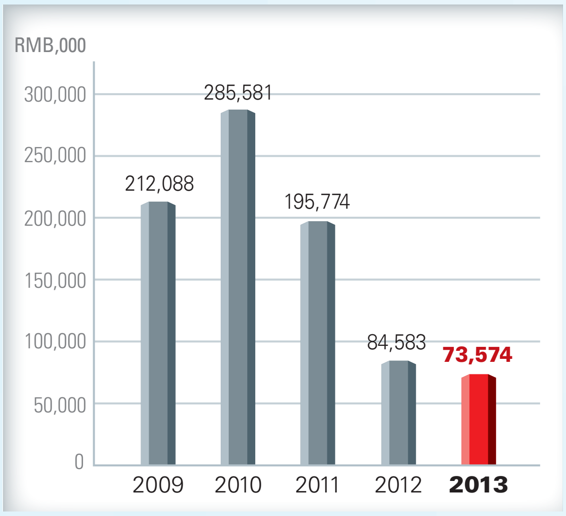
* Interim plus final dividend

EBITDA*



* EBITDA figures shown are before deduction of amortisation of intangible assets, share-based payment expenses and translational gain / loss

Profit Attributable to Equity Holders of the Company



Xuan Ruiguo

Chairman

CHAIRMAN'S **STATEMENT**

We are dedicated to providing high-tech products and services to the highest standard for petrochemical and railway industries ensuring a safe and comfortable environment for our people

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors ("the Board") of the Company, I am pleased to report the audited annual results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2013.

During the year under review, the energy consumption demand of the PRC economy maintained steady growth, while the petrochemical and coal-chemical markets continued the investment trend of 2012 with diversified deployment of investments. On the other hand, the railway industry of China had undergone significant reform after the Wenzhou high-speed train crash in 2011. Various factors such as the separation and restructuring of the function of administration and enterprise and the establishment of China Railway Corporation ("CRC") created uncertainties to the development of the railway industry, which also resulted in a gap period of tendering bid for railway equipments during the transition period. Investment was particularly slow in the first two quarters this year.

As the largest provider of safety and critical control systems, the largest domestic manufacturer of control valves for the petrochemical and coal chemical industries, one of the largest providers of railway signaling systems, and qualified on-board electrified equipments provider for the railway industry in China, the Group is committed to providing high-tech products and services of top-quality to meet people's need for a safe and comfortable transportation system, and offering comprehensive and reliable products and services to the industries in which we operate. During the year under review, the Group continued its pursuit of quality, sustainable and strategic development by investing its core resources into the core businesses, though it took time for the Group to restore its operating results. During the year, the Group strived to keep a proper balance between short-term profitability and medium-to-long term development, strengthened internal budget management, implemented stringent cost-control measures and optimised and consolidated its business structure, so as to improve the core competitiveness of all subsidiaries. Despite the interruption and impacts suffered by the Group during the year due to the uncertainties in the railway industry, the overall performance of the Group remained in line with management expectations. During the year under review, turnover of the Group increased by 4.4% year-on-year to RMB2,308.8 million (2012: RMB2,210.7 million). Gross profit dropped by 4.3% to RMB828.3 million (2012: RMB865.2 million). Profit attributable to shareholders decreased by 13% to RMB73.6 million as compared with that of the previous year (2012: RMB84.6 million). Earnings per share amounted to RMB7.17 cents. The Board did not recommend the distribution of a final dividend for the year ended 31 December 2013.

STRENGTHENING THE GROUP'S LEADING POSITION IN PETROCHEMICAL INDUSTRY TO PROMOTE SYNCHRONISED DEVELOPMENT OF THE SAFETY AND CRITICAL CONTROL SYSTEMS AND CONTROL VALVES BUSINESSES

During the past year, the petrochemical and coal-chemical industries maintained stable and positive development with improvement in internal impetus, stable growth in investments and significant changes in industry structure. In addition, as the energy price bottomed out and the exports maintained a growth momentum, all these positive factors provided favorable opportunities for our petrochemical business. The Group has been engaged in providing safety and critical control systems for the petrochemical industry since 1999. Leveraging its established business base and on-going technological innovations, the Group secured a market share of over 70% and maintained its leading position in the safety and critical control system market during the year. The Group also has good, long-standing relations with various reputable clients, such as China Petrochemical Corporation, China National Petroleum Corporation, China Shenhua Energy Company Limited and China National Coal Group Corporation.

Wuzhong Instrument Company Limited ("Wuzhong Instrument"), a wholly-owned subsidiary of the Group, maintained outstanding performance during the year under review, recording a 28% organic growth in revenue over 2012. As the leader of the control valve industry in China, Wuzhong Instrument enjoyed an advantage in market share over similar domestic products. During the year under review, Wuzhong Instrument gained experiences in providing the complete set of instrument supply services and achieved substantial progress in the business model of "general contractor and re-manufacture (「服務大包+再製造」)". During the year, consistent efforts were made by Wuzhong Instrument to promote its high-end products including axial flow valves, tank bottom valves, large-caliber triple eccentric butterfly valves, high-temperature and high-pressure ball valves, temperature and pressure reducing devices and high pressure differential control valve, which were well received by the market. As a technology-oriented company, Wuzhong Instrument also achieved fruitful results in research and development during the year and registered six patents. Meanwhile, leveraging on its core competitive strength, Wuzhong Instrument also made great breakthrough in its exploration of the international market. In recognizing its leading position in the industry and high quality of products, Wuzhong Instrument was rewarded a number of awards during the year including "the Second Prize of National Scientific and Technological Progress – Key Technology Independent Innovation and industrialization on High-end Control Valves", and was also accredited as national demonstration base of international cooperation. Wuzhong Instrument spared no effort in enhancing internal management, so as to reinforce the Company's operational capability and facilitate optimisation and upgrade of industrial structure.

OPTIMISING PRODUCT MIX AND EXPANDING ITSELF TO BE BETTER PREPARED FOR RECOVERY OF RAILWAY INDUSTRY

According to the statistic data released by CRC, in 2013, national railway fixed asset investments amounted to RMB663.8 billion, and the new lines put into use amounted to 5,586 kilometer, of which high-speed railway accounted for 1,672 kilometer. The tendering activities for railway projects slowed down as impacted by the uncertainties in this transition period due to the restructuring of the CRC (previously "Ministry of Railways"). Although the business of the Group was significantly affected by the slowdown in tendering activities due to its business nature, the Group continued to expand and optimise its product mix to further enhance its comprehensive strength, enabling the Group to capture the business opportunities arising from the recovery of the railway industry.

The Group is one of the four qualified suppliers of railway interlocking signaling system software, hardware and system integration and related services in China with a market share of over 30%. During the year under review, turnover of the signaling business segment increased by 10.1% as compared with that of last year. The Automatic Train Supervision System ("ATS") and Monitoring System for Signaling ("MSS") from Beijing Jiaoda Microunion have been named as "Beijing 2012 High-Tech Achievements Transformation Projects" and were awarded with dedicated funds. This great achievement had driven the Group's efforts in research and development and transformation of new technologies, and also served as a good demonstration to promote our products in Beijing and even across the country.

The Group is one of the five qualified suppliers of electrified equipment recognized by the CRC and one of the qualified suppliers for the metro localisation electrified equipment market. The sales of the key product DC600V declined dramatically, resulting in significant decrease in the annual turnover. However, Nanjing Huashi achieved breakthrough in strategic development, such as winning the bid of Guangzhou Metro Line 9 project together with ABB Microunion to make its entry into the metro traction system market, and the traction system project of Nanjing Metro Line 1 as a general contractor. Furthermore, although the railway market appeared sluggish, the Group made proactively efforts to prepare itself by improving its basic research and development platform and accelerating the development of new products.

In the past year, the Group strived to grow its market share and solidify its leading position, and focused on improving the safety and reliability of signaling systems and traction systems during their research and development, manufacturing, testing and application stages. The Group expects that its two key products – railway signaling systems and railway traction systems – will enable the Group to become an advanced one-stop solution provider of a complete set of signaling products and on-board critical equipment to meet the needs of China's urban rail transits and national railway.

PROSPECTS AND OUTLOOK

Looking ahead, although there are signs showing recovery in the global economy, the road to recovery remains bumpy and the economic recovery of the Euro Zone, in particular, remains slow. Domestically, after the release of overall reform plan by the Third Plenary Session of the 18th CCP, the government frequently issued statements on the reform hot topics according to the spirit of the Third Plenum, so as to provide explanation to issues which the society concerned most, covering politics, economy, judicature, land and social management. The Group expects that the various reforms may yield instability to the PRC economy in the short term, which may result in a temporary slowdown in the economy. However, the Group believes that as the central government has shifted its focus from current benefits to long-term development and strived to avoid blind pursuit of economy expansion, such efforts will create a more robust economic model in the long run and also provide the enterprises with a more healthy and persistent business environment. Currently, the petrochemical and railway industries are among the few industries in the PRC that have both objective demand and strong investment willingness from the government and state-owned enterprises. Therefore, the Group remains confident about the prospect of these two major businesses.

At the first annual meeting after the establishment of CRC, it announced that in 2014 an amount of RMB630 billion would be arranged for railway fixed asset investments and over 6,600 kilometer of new lines would be put into operation, with a focus on railway construction in Central-western China. The Group is cautious about the prospect of the railway industry, and expects that the tendering activities will gradually walk out of the downturn in the second half of 2014, while the recovery of the overall rail industry still takes time. In respect of the petrochemical industry, it is the industry consensus that the overall development and growth of the industry will be in tandem with the economy in 2014. In respect of the coal-chemical industry, the government is quite supportive towards investments in the coal-chemical industry with consideration to state strategic energy security, which guarantees the basic needs of the Group in respect of petrochemical industry in the coming years. Meanwhile, development of new coal chemicals has become the key focus of the coal industry of China in the future, which will become a new bright spot for the future development of the Group.

Currently, the Group has four pillar business segments mainly comprised of the safety and critical control systems, control valves, railway signaling systems, railway power supply and traction systems. The Group focused to further strengthen its advantage in scientific research, production, engineering and services during the past year, so as to enhance its core competitiveness. The year 2014 will be more challenging for the Group, which will be crucial to the development of the Group as it is expected to walk out of the downturn after the capital market has been sluggish for three years. To this end, the Group will strive to become leader of the industry and achieve quality growth by sticking to its operating approach and development strategy and focusing on its core products. Meanwhile, the Group will further consolidate its existing member companies to achieve a synergistic effect and tackle the challenges in the market.

The Group also spared no effort in fulfilling its social and corporate responsibility. For instance, after an earthquake at 7.0 Richter Scale struck Ya'an, Sichuan Province in April 2013, the Group and staff donated over RMB200,000 to the One Foundation to support the relief work. During the year, the Group also donated RMB300,000 to Wuzhong City, Ningxia Autonomous Region to provide funding for the treatment of 300 cataract patients from underprivileged families. In the future, the Group will continue to adhere to the principle of "take and give", and will assume more social responsibility and strive to reward the society in various ways as the Group continues to grow.

On behalf of the Board, I would like to take this opportunity to express my appreciation to our customers, business partners and shareholders for their continued support for the Group. I would also like to thank every member of our management and staff member for their contributions to the Group during the year. Capitalising on our unique competitive advantages, clear development strategies and experienced professional management team, the Group will continue to maximise returns for our shareholders and achieve remarkable results.

Xuan Ruiguo
Chairman

Hong Kong
26 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION AND BUSINESS REVIEW

In 2013, the Group maintained its leading positions for its four core businesses in the petrochemical and railway industries in China. The Group is the largest integrated solution provider of safety and critical control systems in the petrochemical and coal chemical industries; the largest domestic manufacturer of control valves; one of the largest solution providers of railway signaling systems; as well as one of the qualified suppliers of traction and auxiliary power supply systems in railway industry in China.

In 2013, the Group continued to take various measures to streamline and improve its operations in both business segments. The Group implemented a stringent budgetary planning and control system as well as cost-control measures so as to lower the marketing and operational cost. It also rolled out an internal reorganization programme to enhance its operational efficiency.

PETROCHEMICAL INDUSTRY

The Group's safety and critical control related business remained stable despite a slowdown in China's economic growth in 2013. As at 31 December 2013, the Group successfully completed and delivered approximately 298 sets of systems, bringing the cumulative number of delivered systems to approximately 2,844 sets. The Group secured large-scale projects in 2013 from renowned petrochemical and coal-chemical related companies, such as Sinopec, PetroChina, China Coal Energy and Shenhua Group, etc. In addition, as a qualified vender for GE Oil & Gas, MAN Turbo, Hitachi, Kobelco, Air Product, Air Liquide, Siemens, Atlas Copco, Mitsubishi, Dresser Rand, Elliott-Ebara, and YORK, the Group continued to win new contracts in 2013 from these multinational corporations.

The Group's customized safety and critical control system services were becoming more and more popular and achieved moderate growth in the provision of engineering and maintenance services business. The Group was awarded "Excellent Brand for Engineering Maintenance" ("工程服務品牌獎") and "Excellent Brand for After-Sales Service" ("售後服務能力品牌獎") as one of China automation service brands.

With the continuous efforts in sales and marketing, production, internal operation, and R&D, the Group's control valve business achieved robust significant organic growth in 2013. The Group's strength of control valve business also lies on its engineering and maintenance services. Wuzhong Instrument has established a strong control valve engineering and maintenance services team. Building on years of experience, the Group's control valve engineering and maintenance services team can undertake plant-wide control valve engineering and maintenance services for both its own products and the products made by other companies, including first-tier multinational corporations. In 2013, the maintenance services made a considerable contribution to the profit and also secured more new orders which were used to replace the control valves manufactured by other producers.

The Group continued to invest in R&D during the year. For example, in 2013, the Group's wholly owned subsidiary Wuzhong Instrument undertook several national R&D projects awarded by National Development and Reform Commission, the Ministry of Science and Technology, and the Ministry of Industry and Information Technology, etc. In this regard, several control valves and devices have been put into commercial production. The outcomes of its R&D projects have been highly recognized. For instance, one of its R&D achievements, Innovation and Industrialization of Key Technologies for its high-end control valves, received the National Award (Second Prize) for Science and Technology Progress. Another achievement namely Temperature Adjustment Devices used by Coal-chemical Industry won the Provincial Award (First Prize) for Science and Technology Progress.

RAILWAY INDUSTRY

Along with the structural change and adjustment launched by the Party's Congress in early 2013, reform and restructuring were taken place in national railway sector. As the former Ministry of Railway ("MOR") was dissolved and the newly established China Railway Corporation ("CRC") was undergoing its internal institutional building, national railway projects were further delayed in the first half of 2013. However, following the re-start of many national railway construction projects in the second half of 2013, the Group was able to execute and deliver more signaling orders on hand. In 2013, the Group won the railway signaling system projects of the Datong-Xi'an passenger dedicated rail line, Zhengkai (from Zhengzhou to Kaifeng) Intercity Railway (鄭開城際) and Zhengjiao (from Zhengzhou to Jiaozuo) Intercity Railway (鄭焦城際), etc. The Group also, for the first time, won a signaling project in Guizhou Province under the administration of Chengdu Railway Bureau. Furthermore, the Group won the signalling contract for Chengdu Subway Line 3 as a subcontractor. As at 31 December 2013, the Group completed and delivered approximately 165 sets of systems, bringing the cumulative number of delivered systems to approximately 1,826 sets.

The Group's business of on-board auxiliary power supply systems and related products has been heavily affected by the institutional change of national railway sector in 2013. As the newly established CRC focused on its internal structuring, no tendering for equipment was conducted in the first half of 2013. Thus the Group's revenue from related business dropped significantly in 2013. However, the Group achieved milestone breakthrough in traction systems applied in metro projects. The Group together with ABB Microunion won its first subway contracts of traction systems for Guangzhou Subway Line 9. In addition, the Group won its second traction systems project for Nanjing Subway Line 1 as a general contractor. With the track records of these two projects, the management of the Group believes that the Group will be able to capture the potential opportunity of the huge metro market in the future.

FINANCIAL REVIEW

REVENUE

For the year ended 31 December 2013, revenue of the Group increased by 4.4% to RMB2,308.8 million (2012: RMB2,210.7 million), compared with that of previous year.

Revenue generated from petrochemical segment increased by 18.9% to RMB1,747.9 million (2012: RMB1,470.5 million), whereas revenue generated from railway segment shrank by 24.2% to RMB560.9 million (2012: RMB740.2 million) for the year ended 31 December 2013.

TURNOVER ANALYSIS BY OPERATING SEGMENT

	For the year ended 31 December				
	2013		2012		
	(RMB' million)	**(%)**	(RMB' million)	(%)	Change (%)
Petrochemical	**1,747.9**	**75.7**	1,470.5	66.5	+18.9
Railway	**560.9**	**24.3**	740.2	33.5	–24.2
	2,308.8	**100.0**	2,210.7	100.0	+4.4

TURNOVER ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

	For the year ended 31 December				
	2013		2012		
	(RMB' million)	**(%)**	(RMB' million)	(%)	Change (%)
System sales and Engineering design services					
– Petrochemical					
– Safety system	**892.3**	**38.7**	919.8	41.6	–3.0
– Control valve (Note)	**583.0**	**25.3**	343.0	15.5	+70.0
– Railway					
– Signalling system	**349.4**	**15.1**	317.3	14.4	+10.1
– Traction system	**129.9**	**5.6**	222.0	10.0	–41.5
Sub-total	**1,954.6**	**84.7**	1,802.1	81.5	+8.5
Provision of engineering and maintenance services	**168.5**	**7.3**	156.4	7.1	+7.7
Distribution of equipment	**185.7**	**8.0**	252.2	11.4	–26.4
Total	**2,308.8**	**100.0**	2,210.7	100.0	+4.4

Note: Control valve system sales included related service income

SYSTEM SALES AND RELATED SERVICES TO PETROCHEMICAL INDUSTRIES

Safety systems and engineering design services

For the year ended 31 December 2013, revenue generated from system sales and engineering design services in relation to petrochemical industries slightly decreased by 3.0% to RMB892.3 million (2012: RMB919.8 million). The decrease was mainly caused by the decline in revenue generated from the engineering design services business.

Control valve

The Group's control valve business delivered satisfactory results and contributed RMB583 million (2012: RMB343 million) to the Group's revenue for the year ended 31 December 2013. Nevertheless, it should be noted that the control valve business was consolidated in May 2012 and therefore results for only eight months were recorded in 2012 whereas the results of the consolidated business for the full year 2013 were recorded. For full year comparison, the control valve business achieved robust growth of 28% and gained market share. Wuzhong Instrument is now the largest domestic manufacturer of control valves in China.

SYSTEM SALES TO RAILWAY INDUSTRIES

Signalling system

Revenue generated from system sales in relation to signalling system increased by 10.1% to RMB349.4 million (2012: RMB317.3). The management of the Group would like to point out that the CRC was basically under internal adjustment and therefore only a small number of national railway construction projects biddings were conducted in the first half of 2013. Nonetheless, following the resumption of numerous projects in the second half of 2013, the Group caught the window to execute and deliver many orders on hand. Furthermore, the Group, for the first time, won a signalling project in Guizhou Province under the administration of Chengdu Railway Bureau, and started to provide them with the Group's signalling systems.

Traction system

Revenue generated from system sales in relation to traction system significantly decreased by 41.5% to RMB129.9 million (2012: RMB222). The decrease was mainly caused by CRC's delay in tendering out the rolling stock projects as a result of CRC's internal adjustment. This also led to a significant delay in tendering out the traction system production and supply in 2013.

PROVISION OF ENGINEERING AND MAINTENANCE SERVICES

For the year ended 31 December 2013, revenue generated from the provision of engineering and maintenance services increased by 7.7% to RMB168.5 million (2012: RMB156.4 million). The management of the Group believes that more recurring income related to maintenance services will be generated as a rising number of aged installations will have to be replaced following the end of their life cycle.

DISTRIBUTION OF EQUIPMENT

For the year ended 31 December 2013, revenue in relation to equipment distribution shrank by 26.4% to RMB185.7 million (2012: RMB252.2 million).

In terms of types of goods and services rendered, 84.7% (2012: 81.5%) of the Group's revenue was generated from system sales, 7.3% (2012: 7.1%) from the provision of engineering and maintenance services and 8% (2012: 11.4%) from equipment distribution.

In addition, in terms of operating segment, 75.7% (2012: 66.5%) of the Group's revenue was generated from petrochemical and 24.3% (2012: 33.5%) from railway.

GROSS PROFIT

Gross profit for the year ended 31 December 2013 amounted to RMB828.3 million (2012: RMB865.2 million), representing a decrease of RMB36.9 million or 4.3% over the previous year.

The overall gross profit margin decreased by 3.3% points to 35.8% (2012: 39.1%) for the year ended 31 December 2013.

GROSS PROFIT ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

	For the year ended 31 December		
	2013 (%)	2012 (%)	Change (% Points)
System sales and related services			
– Petrochemical			
– Safety system	**29.1**	40.9	–11.8
– Control valve	**33.8**	35.8	–2.0
– Railway			
– Signalling system	**47.7**	41.8	+5.9
– Traction system	**32.3**	40.5	–8.2
Sub-total	**34.0**	40.1	–6.1
Provision of engineering and maintenance services	**70.4**	68.6	+1.8
Distribution of equipment	**24.3**	15.5	+8.8
Total	**35.8**	39.1	–3.3

GROSS PROFIT MARGIN OF SYSTEM SALES AND ENGINEERING DESIGN SERVICES IN RELATION TO PETROCHEMICAL INDUSTRIES

Gross profit margin of system sales and engineering design services

The gross profit margin of safety and critical control system and engineering design services decreased significantly by 11.8% points to 29.1% (2012: 40.9%). The major reasons for the decrease were: (i) the decrease in margin for the engineering design works as the contributions were mainly related to management and procurement; and (ii) losses were recorded for two overseas metering EPC projects; and (iii) the unfavourable change in the product mix of which the proportion of revenue related to the lower-margin ESD increased relative to ITCC.

Gross profit margin of control valve

The gross profit margin decreased by 2% points to 33.8% (2012: 35.8%) due to keen market competition. The management of the Group believes that the gross profit margin would be improved following the launch of new high-end control valves.

GROSS PROFIT MARGIN OF SYSTEM SALES IN RELATION TO RAILWAY INDUSTRIES

Gross profit margin of signalling system

The gross profit margin increased by 5.9% points to 47.7% (2012: 41.8%). The improvement of the gross profit margin was mainly due to the decrease in costs of procuring raw material and core components.

Gross profit margin of traction system

The gross profit margin decreased significantly by 8.2% points to 32.3% (2012: 40.5%). The significant decrease in gross profit margin was mainly because majority of the revenue contribution was from the lower-margin series of electric control cabinets in relation to subway and overseas projects.

Gross profit margin of the provision of engineering and maintenance services

The gross profit margin increased by 1.8% points to 70.4% (2012: 68.6%).

Gross profit margin of distribution of equipment

For the year ended 31 December 2013, the gross profit margin of the equipment distribution business increased significantly by 8.8% points to 24.3% (2012: 15.5%).

OTHER INCOME

For the year ended 31 December 2013, other income decreased by RMB2.2 million to RMB73.2 million (2012: RMB75.4 million). This was resulted from net effect of the decrease in VAT refund and other income by RMB12 million but mostly offset by the increase in the government grants by RMB10.6 million.

OTHER LOSSES

For the year ended 31 December 2013, other losses amounted to RMB51.2 million (2012: other losses of RMB75.3 million). This was mainly attributable to (i) the decrease in the allowance for bad and doubtful debts by RMB12.1 million to RMB59.7 million provided (2012: RMB71.8 million) against those aged accounts receivables aged over two years in respect of the clients from the railway industry. The management of the Group had major concern on its collectability following the train accident in Wenzhou, Zhejiang Province on 23 July 2012 and the uncertainties surrounding the financing of the CRC resulting delayed payment to its suppliers; (ii) net foreign exchange gain of RMB7.4 million (2012: loss of RMB0.5 million) and (iii) gain of RMB6.7 million on the disposal of a subsidiary which engaged in non-core business.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the year ended 31 December 2013 were RMB209.7 million (2012: RMB184.4 million), which increased by 13.7% year-on-year. Such increase was mainly attributable to the fact that the selling and distribution expenses of control valve business was consolidated in May 2012 and therefore only the results for eight months were recorded in 2012 whereas the consolidated results for the full year ended 31 December 2013 were recorded.

Selling and distribution expenses as a percentage of the Group's full year revenue recorded at 9.1% (2012: 8.3%).

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2013 amounted to RMB277.1 million (2012: RMB289.2 million), representing a decrease of 4.2% year-on-year. Such decrease was mainly attributable to (i) the decrease in rental expenses as the Group had not renewed the rental contract for its headquarter in Beijing downtown and relocated it to the plant; (ii) the decrease in entertainment and conference fees; and (iii) the decrease in travelling expenses.

In an effort to trim down the selling and distribution expenses as well as the administrative expenses, the Group had implemented stringent budgetary planning and control system as well as undertaken various cost control measures.

Administrative expenses as a percentage of the Group's full year revenue decreased by 1.1% points to 12% (2012: 13.1%).

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the year ended 31 December 2013 were RMB95.9 million (2012: RMB74.3 million). Such increase was mainly due to the increase in the number of research and development projects such as the development of new control valves with large inflow and outflow diameter, the temperature and pressure regulating equipment for coal-chemical industry in response to the Chinese Government's preferential policies regarding localization; the integrated solution project for imported gas turbine and localized compressor; the development of new signalling related technology for railway industries as well as traction system and auxiliary electricity supply related products for trams.

FINANCE COSTS

Finance costs for the year ended 31 December 2013 increased by 2.9% to RMB135.1 million (2012: RMB131.3 million). Such increase was mainly attributable to the increase in interest rate in relation to short-term borrowings in China for working capital requirements.

INCOME TAX EXPENSES

Income tax expenses amounted to RMB37.3 million (2012: RMB34.3 million) for the year ended 31 December 2013, which was 8.7% higher than that of the previous year.

However, the effective tax rate of the Group for the year ended 31 December 2013 increased by 9.4% points to 30.5% (2012: 21.1%). This was mainly due to (i) tax losses of holding company and certain subsidiaries not recognised; and (ii) expiry of tax holiday for certain subsidiaries.

PROFIT FOR THE YEAR

As a result of the foregoing, the Group recorded RMB73.6 million in profit attributable to equity holders of the Company for the year ended 31 December 2013 (2012: RMB84.6 million), representing a decline of RMB11 million or 13% when compared with that of the previous year.

EARNINGS PER SHARE

Earnings per share decreased by RMB1.07 cents (representing 13%) from that of the previous year to RMB7.17 cents (2012: RMB8.24 cents) for the year ended 31 December 2013.

DIVIDEND

The Board did not recommend the distribution of final dividend (2012: 2.5 HK cents per share, equivalent to RMB2.0 cents per share) in respect of the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's liquidity position remains strong.

Net cash generated from the Group's operating activities amounted to RMB335.1 million (2012: RMB20.1 million) for the year ended 31 December 2013. This was mainly attributable to (i) the tremendous effort in following up and collecting the trade and bills receivables so that its increase could be kept at a modest level; (ii) meticulous planning to reduce the inventory level; and (iii) the significant decrease in amount due from customers for contract works; and (iv) the increase in other payables and accruals.

Net cash used in investing activities of the Group decreased by RMB9 million to RMB173.4 million (2012: RMB182.4 million) for the year ended 31 December 2013. The investments made during the year were: (i) purchases of property, plant and equipment which amounted to RMB83 million; and (ii) development costs paid amounted to RMB47.8 million.

Net cash used in financing activities amounted to RMB190.8 million (2012: RMB160.2 million) for the year ended 31 December 2013. There was no significant financing activity for the year ended 31 December 2013. Furthermore, the Group repaid the corporate bonds amounted to RMB50 million.

As at 31 December 2013, cash and bank balances (including pledged bank deposits) amounted to RMB598 million (31 December 2012: RMB587.9 million).

GEARING POSITION

The net gearing (total borrowings less cash over equity) ratio was at 43.7% as at 31 December 2013 (31 December 2012: at 48%). As at December 2013, the total borrowings of the Group amounted to RMB1,544.3 million (31 December 2012: RMB1,583.1). The total borrowings mainly comprised the guaranteed notes which amounted to RMB1,146.9 million (equivalent to USD192 million) issued in April 2011.

SIGNIFICANT INVESTMENTS, MERGERS AND ACQUISITIONS

For the year ended 31 December 2013, the Group had no significant investments, mergers and acquisitions.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The Group will strive to maintain its leading position for its four core businesses in two major industrial segments, namely the petrochemical and railway industries which the Group will continue to focus on.

For the petrochemical segment, the Group will continue to put great emphasis on the business development of control valves in Wuzhong Instrument so as to further enhance its overall competitiveness in sales and marketing, production, internal operation, as well as research and development. The Group will continue to develop high-end control valve to capture the great opportunity for localization of industrial products in China. On the other hand, the Group will sustain its efforts in extending the applications of its safety control systems to upstream oil & gas field as well as metallurgical, power and other industries. Meanwhile, the Group will strive to enlarge the revenue contribution from its recurring engineering and maintenance services through enhanced service team and value-added services.

For the railway segment, the Group will further enhance the business development of traction and auxiliary power supply systems and extra efforts will be paid on traction system projects of urban rail transit. On the other hand, the Group aims to develop itself into a total solution provider which offers a full range of signaling products to both national railway and urban rail transit projects.

Riding on its solid businesses of four main product series, namely safety and critical control systems, control valves, signaling systems, and traction and auxiliary power supply systems, the Group will endeavour to maximize returns to its stakeholders.

INVESTOR RELATIONS REPORT

In the year of 2013, with the guidance of "high-quality, sustainable and strategic development", the Group continued to adopt a proactive and open approach while taking effective cost control measures to conduct most extensive information exchanges and communication with investors, so that they could have better knowledge and understanding of the Group's future development strategy, operational situation and financial performance. Such efforts enhanced the transparency of the Group in the capital market and offered strong support to the Group's investors to make informed and reasonable investment decisions.

On the basis of fair disclosure, the Group has maintained sincere and timely communication with investors through various channels to report the Group's latest development:

– Interim and annual results announcement

– Road shows

– Investment forums

– Publicity through the mass media

– Continually arranging meetings between senior management and investors and site visits to the Group's facilities and customer sites

– Prompt response to investor enquiries

– The Group's website

– Strive to enlarge the research coverage

In 2013, the Group's top management and IR team participated in the domestic and overseas investment forums for 16 times, as well as different road shows. The team paid visit to the Group's shareholders and potential investors in Singapore, Hong Kong, Macau, Shanghai, Beijing and Shenzhen, so as to inform and update them about the Group's latest developments. Meanwhile, the Group has hosted site visits for more than 400 investors in Hong Kong and Beijing during the period, during which visitors could witness the Group's stable growth with their own eyes.

In 2014 and onwards, the Group will continuously enhance investor relations. The senior management of the Group will consistently support investor relations, and the Group will persistently make transparent disclosures.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Xuan Rui Guo (宣瑞國), aged 45, the Group's founder, Executive Director and Chairman, is mainly responsible for the overall strategic, financial planning and long-term development. Mr. Xuan is also one of the winners of the Ernst & Young Entrepreneur of The Year 2009 China. Mr. Xuan graduated from the Renmin University of China (中國人民大學) with a bachelor's degree in international politics. He has extensive experience in management, administration and business development in different industries including industrial automation, biotechnology, telecommunication and trading in the PRC. He was the general manager of Boda Telecommunication and Electronics Company Ltd. in Yunnan, China, manager of Beijing Invention Biology Company Ltd. and the general manager of Beijing Consen Automation Control Co., Ltd.

Mr. Kuang Jian Ping (匡建平), aged 50, the Group's co-founder and Executive Director and Chief Executive Officer, is mainly responsible for the Group's daily operation as well as merger and acquisition strategies. Mr. Kuang holds a master's degree in mechanical engineering in Dalian University of Technology (大連理工大學). He has over 15 years of experience in sales and marketing as well as management in the instrument and automation business in the China chemical and petrochemical industry. Mr. Kuang was a sales manager of the Instrumentation Technology Company of Dalian University of Technology and was responsible for trading instruments and automation systems. He also worked as a sales manager and subsequently a deputy general manager in a subsidiary of China Chemical Industry Equipment and Instrumentation Company in Hainan province and was responsible for trading chemical equipment and instruments. Besides, Mr. Kuang worked in Beijing Consen Automation Control Co., Ltd. as the deputy general manager in charge of sales and marketing.

Mr. Huang Zhi Yong (黃志勇), aged 47, is a co-founder of the Group and Executive Director. He is also the head of the Group's software development team. He is in charge of the internal operations of the Group including R&D, financial management and customer service. Mr. Huang holds a master's degree in mechanical engineering in Dalian University of Technology (大連理工大學). He has over four year's experience in the R&D of mechanical engineering and over twelve years' experience in the management of corporate operation, automation engineering and trading. Mr. Huang worked for the Machinery Research Institute of Sinopec Tianjin Petrochemical Corporation and was the deputy general manager of Beijing Consen Automation Control Co., Ltd.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Wang Tai Wen (王泰文), aged 67, is an Independent Non-executive Director since January 2008 while being an external director of China National Foreign Trade Transportation (Group) Corporation. Prior to joining the Company, he also held various managerial positions in Ziyang Internal Combustion Locomotive Plant; served as the chairman, general manager and secretary to the communist party committee of China National Railway Locomotive Corporation; and also served as chairman and secretary to the communist party committee of China Southern Locomotive Industrial Group Corporation (中國南方機車車輛工業集團). In November 2006, Mr. Wang joined China Railway Engineering Group Company Limited (中鐵工) as an external director. According to the Notice on board of directors of wholly state-owned company issued by State-owned Assets Supervision and Administration Commission of the State Council, being an external director of China Railway Engineering Group Company Limited, Mr. Wang's main responsibilities are to attend meetings of its board of directors and to make decision in the capacity as a director. He did not participate in any daily operation at both China Railway Engineering Group Company Limited, and its group companies. He graduated from Dalian Railway Institute (中國大連鐵道學院), the PRC, majoring in machinery and manufacturing.

Mr. Sui Yong-bin (隋永濱), aged 72, is an Independent Non-executive Director since July 2011. Mr. Sui obtained an undergraduate degree in chemical & mechanical engineering in 1965. He served as a Commissioner and the Deputy Director of Department of Machinery Industry from 1965 to 1997. From 1997 to 2000, he was the Deputy Chief Engineer (bureau level) of Machinery Industry Bureau of the State, and also served as the Dean of Machinery Industry Information Research Institute and the Publisher of Machinery Industry Publishing House. Mr. Sui was the Chief Engineer and a member of Specialized Committee of China Machinery Industry Federation from 2000 to 2008. From 2008 to present, he has been the Special Consultant of China Machinery Industry Federation. Mr. Sui has long been engaging in the management of the industry in areas such as machinery industry technology, planning, research and development of major technologies and equipment. Mr. Sui has also been serving as the President of China General Machinery Industry Association since 1995. Mr. Sui has been an independent director of Xi'an Shangu Power Co., Ltd. (西安陝鼓動力股份有限公司) since April 2010, an external director of Harbin Air Conditioning Co., Ltd. (哈爾濱空調股份有限公司) since May 2008 and an external director of Jiangsu Shuangliang Air-conditioning Equipment Co., Ltd (江蘇雙良空調設備股份有限公司) since July 2010.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Mr. Ng Wing Fai (吳榮輝), aged 55, is an Independent Non-executive Director. Mr. Ng joined the Group in June 2007. He has over 15 years' experience in audit, taxation and consultancy in government and non-government institutes. Mr. Ng holds a bachelor's degree of arts in accountancy and a master's degree of arts in international accounting from City University of Hong Kong. He also holds a postgraduate diploma in British and Hong Kong law from The Manchester Metropolitan University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a council member of the Society of Chinese Accountants & Auditors, and a member of the Hong Kong Securities Institute.

SENIOR MANAGEMENT

Mr. Cui Da Chao (崔大潮), aged 57, is the Chief Financial Officer of the Group. He is primarily responsible for overseeing the Group's financial planning and control, accounting and financial affairs. Prior to joining the Group in 2004, Mr. Cui worked as an executive director and financial manager at a Canadian company principally engaged in trading of chemical raw materials. From 1999 to 2001, he was a partner and deputy general manager of a PRC accountancy firm. He graduated from Xiamen University (廈門大學), the PRC, with a specialization in international accounting.

Mr. Wang Wen Hui (王文輝), aged 55, the Group's Senior Vice President and the Chairman of Beijing Jiaoda Microunion Technology Co., Ltd. In 1984, he graduated from the Information Research Institute of Northern Jiaotong University (北方交通大學資訊研究所), majoring in information processing, and was awarded a master degree in engineering. During the period between 1984 and 1993, Mr. Wang held a teaching post at the Information Research Institute of Northern Jiaotong University and was invited to Tokyo Institute of Technology as senior visiting scholar. During the period between 1993 and 2000, he served as department manager and general manager of Beijing Jiaotong University Technology Company and Beijing Zhongfei New Electrical Technology Company, respectively. Before taking up the post of the Chairman, he was a general manager of Beijing Jiaoda Microunion Technology Co., Ltd. since April 2000.

Mr. Zhou Zheng Qiang (周政強), aged 48, the Group's Senior Vice President and is primarily responsible for overseeing the marketing development of the Group. He graduated with a bachelor's degree of process automation in the Department of Chemical Engineering in Zhejiang University (浙江大學) and also holds the Certificate of Senior Automation Engineer in China. He has worked in China Hua Lu Engineering company for 15 years from 1988 to 2002. From April 2002 to January 2006, he was the general manager of Xian Lan Qi Control System Engineering Company Ltd (西安籃溪控制系統工程有限責任公司). He joined the Group in February 2006.

Mr. Li Hai Tao (李海濤), aged 44, is a Head of Strategic Development of the Group. Mr. Li joined the Group in March 2008, mainly responsible for investment and merger and acquisition issues of the Group. He obtained a MBA and a double bachelor's degree in engineering from Tsinghua University (清華大學). He has extensive experience in investment, strategic development and corporate management, leading various merger and acquisition, as well as integration and new business development. Mr. Li was a vice president, general manager of investment department and general manager of corporate management department at Fei Shang Group in Shenzhen. He also served as general manager of investment management department at Hua Bao Group, managing director of Hua Bao Group Shenzhen Metropolis Trading Co. Ltd. and deputy managing director of Hua Bao Group Shenzhen Metropolis Logistic Co. Ltd.. From 1998 to 2001, Mr. Li was the head of development and research department at China International Marine Containers (Group) Co., Ltd.

Mr. Duan Min (段民), aged 47, a Vice-president of the Group. He is primarily responsible for overseeing the supply chain department of the Group. He graduated with a bachelor's degree in automation of chemical engineering in Dalian University of Technology (大連理工大學). He has over 16 years working experience in the automation systems and instruments industry in the PRC. He joined the Group in May 1999.

Mr. Chen Yong (陳勇), aged 46, is the general manager of Beijing Consen Automation Control Company Limited. Prior to joining the Group in 2003, Mr. Chen worked in manufacturing management and sales at Shanghai Foxboro company Limited. From 1990 to 1992, he worked at a textile mill in Shanghai. He graduated from Shanghai Technology College of Metallurgy (上海冶金高等專科學校) with a specialization in Application of Computer, and University of Science and Technology Beijing (北京科技大學) with a specialization in Engineering Management.

Mr. Ma Yu Shan (馬玉山), aged 45, is the General Manager of Wuzhong Instrument Co., Ltd. since 2006. In 2009, he graduated from Xi'an University of Technology (西安理工大學), majoring in instrumentation, and was awarded a doctor degree in engineering and Special State Allowance Scholar. In 2001, he was named to be the National Youth Station Expert. In 2002, he won the National Youth Creativity and Efficiency Award. In 2011, he received the national science and technology prize in the 11th Five year Plan of china for the outstanding contribution. In 2013, he was honored to be the youth science and technology innovation talent. From 1991 to 2001, Mr. Ma was a technician and director of technology department in Wuzhong Instrument Co., Ltd. During the period between 2001 and 2006, as deputy general manager of Wuzhong Instrument Co., Ltd.

Mr. Li Guang Lei (李光磊), aged 48, the general manager of Beijing Jiaoda Microunion Tech. Co., Ltd. In 1987, he graduated from the department of electrical engineering of Northern Jiaotong University (北方交通大學電子工程系), majoring in computer software, and was awarded a bachelor degree in engineering. From 1987 to 1990, he held a teaching post in the department of computer and served as the secretary of Communist Youth League at Northern Jiaotong University (北方交通大學). From 1990 to 2001, he successively served as the deputy director of logistics division and the deputy director of the academic enterprise division at the University, and also served as the general manager of Beijing Jiaoda Golden Wheel Tech. Co. In 2002, he served as the deputy general manager of logistics group at the University. From 2003 to 2009, he served as the secretary of CPC committee of School of Distance Learning and Continuing Education (director of school affairs committee). Since 2010, he served as the deputy general manager and then the general manager of Beijing Jiaoda Microunion Tech. Co., Ltd.

Mr. Tian Lei (田磊), aged 50, the General Manager of Nanjing Huashi Electronic Tech. Co., Ltd. In 1985, he graduated from Central South University (中南大學), majoring in locomotive engineering, and was awarded a Master degree in 1988 from Tongji University. From April 1988 to 1996, he served as an engineer, senior engineer and project manager of Zhuzhou Electric Locomotive Research Institute (株洲電力機車研究所). From April 1996 to 1998, he served as the chief of human resource division. From 1998 to 2000, he served as the deputy director of Zhuzhou Electric Locomotive Research Institute. Later, from 2000 to 2007, he successively served as the vice president and secretary of Party Committee of Zhuzhou Times Group, and meanwhile he was the secretary of Party Committee and the deputy director of Zhuzhou Electric Locomotive Research Institute, president and deputy chairman of Zhuzhou Times Electric Co., Ltd. (株洲時代電氣, listed in HK). From November 2007 to August 2009, he served as the general manager of locomotive department and deputy chief engineer of CSR Corporation Limited (中國南車集團). From August 2009, he served as the general manager of oversea business department and import and export company, deputy chief engineer of CSR Corporation Limited. He joined the China Automation Group in 2011.

Ms Wang Yan Mei (王彥梅), aged 73, is the chairman and also the general manager of the Beijing Haidian ZhongJing Engineering Software Technologies Ltd. She graduated from mechanical engineering department at Beijing Institute of Petroleum in 1964, majoring in oil storage and transportation. Then she served a position of Beijing Design Institute, the Ministry of Petroleum Industry. From 1973 to 1998, she served as vice president of Beijing Design Institute of China Petrochemical Corporation. She has been the Chairman for the National Survey and Design Industry Computer Applications Association under the Ministry of Construction (建設部中國勘察設計協會全國勘察設計行業計算機應用協會) since 1985.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Mr. Wang Jing Hua (王景華), aged 51, is the general manager of Beijing Consen Oil and Gas Process Control Company Limited. He graduated from the School of Technology & Business Management of the Renmin University of China (中國人民大學), with a master's degree in MBA. From 1988 to 2002, he served as director and general manager of Taxinan Petrochemical Thermal Power Plant of Xinjiang Petroleum Administration Bureau and Beijing Feida Gas Turbine Engineering Corporation, respectively. During the period between 2002 and 2006, he served as vice general manager of the Beijing Kang Bosen Gas Turbine Engineering Co. Ltd. In 2007, he held the position of Chief Executive Officer of Hong Kong Feilite International, LLC. Mr. Wang joined the Group in 2008 and transferred to Beijing Consen Oil and Gas Process Control Company Limited as general manager in September 2011.

Mr. Bill Barkovitz, aged 43, is President of the Group's US operations, Inovex Corporation. He graduated from University of California, Irvine in 1993 with a bachelor's degree in Applied Physics. Upon graduating, he entered the field of control & automation. From 1994 to 2005, Mr. Barkovitz worked for Triconex Corporation, a division of Invensys. Triconex is the global leading supplier of safety, critical control, and turbomachinery systems for the process industries. He served as Sales Director of Northern Asia Pacific while based in Singapore from 1995-1998, then General Sales Manager of Europe, Middle East, & Africa from 1998-2001 while base in the UK. In 2001, Mr. Barkovitz moved to the Triconex corporate headquarters in Irvine, California to take on the role of Vice President Marketing. He moved to a start-up company in 2005, ORYXE Energy International, as Vice President of Marketing. ORYXE Energy develops emissions reduction chemical technologies for oil refiners and fuel distributors. In 2007, he left ORYXE Energy in order to form the first US corporate entity of China Automation Group called Inovex.

Mr. Chow Chiu Chi (周昭智), aged 55, is the Finance Director and Company Secretary. He joined the Group in June 2006. He graduated from the Hong Kong Polytechnic University with a bachelor of arts' degree in Accountancy. He is an associate member of the Chartered Institute of Management Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He also obtained a master's degree in business administration from the Hong Kong Polytechnic University. He has over 30 years of experience in finance, accounting and internal audit.

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSES OF OPERATIONS

The Company is an investment holding company. The Group is engaged in the provision of safety and critical control system specialized for petrochemical and railway industries, along with related maintenance and engineering services.

The activities of the Group are mainly based in the People's Republic of China (the "PRC"). Analyses of the Group's revenue and contribution to operating result by principal activities and by principal markets are set out in notes 5 and 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 34 of this annual report.

DIVIDEND

The Board did not recommend the distribution of final dividend (2012: 2.5 HK cents per share) for the year ended 31 December 2013.

CLOSURES OF REGISTER OF MEMBERS

In order to qualify for attending and voting at the forthcoming annual general meeting, the register of members of the Company will be closed from Friday, 23 May 2014 to Thursday, 29 May 2014 (both dates inclusive), during such period no transfer of shares of the Company will be registered. For determining the entitlement of the aforementioned proposed, the unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183, Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 22 May 2014.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 108 of this annual report. The summary of results is for comparative purposes only, and does not form an integral part of the audited financial statements.

DISTRIBUTABLE RESERVES

Movements in the reserves of the Group during the year ended 31 December 2013 are set out on page 37 of this annual report. As at the balance sheet date, the Company's distributable reserves amounted to RMB1,007,616,000 (2012: RMB976,731,000), subject to the applicable statutory requirements under the laws of the Cayman Islands.

SHARE CAPITAL

Details of movements of the share capital of the Company during the year ended 31 December 2013 is set out in note 34 to the consolidated financial statements.

CHARITABLE CONTRIBUTIONS

Charitable contribution made by the Group during the year ended 31 December 2013 amounted to RMB700,000 (2012: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2013 are set out in note 49 to the consolidated financial statements.

EMPLOYEES

As at 31 December 2013, the Group had a total of 2,966 employees (31 December 2012: 3,082). The decrease in staff headcount was mainly attributable to the business restructuring in the petrochemical business segment.

The emoluments payable to the employees of the Group are based on their responsibilities, qualifications, performance, experience and the related industrial practices.

DIRECTORS

The Directors during the year and as at the date of this report were:

EXECUTIVE DIRECTORS

Mr. Xuan Rui Guo
Mr. Huang Zhi Yong
Mr. Kuang Jian Ping

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Tai Wen
Mr. Sui Yong Bin
Mr. Ng Wing Fai

Pursuant to article 87 of the articles of association of the Company, Mr. Huang Zhi Yong and Mr. Sui Yong Bin shall retire from office by rotation at the forthcoming annual general meeting of the Company and shall be eligible for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is of a duration exceeding three years or which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

The emoluments payable to the Directors are based on terms of their respective service contracts with the Company. The Directors' fee payable is subject to annual assessment and approval by the Board and shareholders of the Company at annual general meetings. Details of the emoluments paid and payable to the Directors for the year ended 31 December 2013 are shown in note 12 to the consolidated financial statements.

The contributions to pension schemes for the Directors for the year ended 31 December 2013 are disclosed in note 12 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Group are set out on pages 19 to 22 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, its holding company, its fellow subsidiaries or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the share option scheme of the Company as disclosed in note 45 to the consolidated financial statements, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(I) LONG POSITIONS IN THE SHARES OF THE COMPANY

Name of Director	Personal interest	Family interest	Corporate interest (Note)	Other interest	Interest in underlying shares pursuant to share options	Total	Approximate percentage of shareholding
	No. of shares						
Mr. Xuan Rui Guo	1,000,000	–	457,933,541	–	–	458,933,541	44.72%

Note: Consen Group Holdings Inc. ("Consen Group") was the legal and beneficial owner of 457,933,541 Shares. Consen Group was owned as to 93.80% by Consen Investments Holding Inc. ("Consen Investments"), which was in turn owned as to 50%, 25% and 25% by Mr. Xuan Rui Guo ("Mr. Xuan"), Mr. Huang Zhi Yong ("Mr. Huang") and Mr. Kuang Jian Ping ("Mr. Kuang") respectively, and owned as to 6.20% by Gembest Investment Limited ("Gembest"). Accordingly, Mr. Xuan was deemed to be interested in the 457,933,541 Shares held by Consen Group by virtue of the SFO.

(II) LONG POSITIONS IN THE SHARES OF ASSOCIATED CORPORATIONS

Name of Associated corporation	Name of Directors	Personal interest	Family interest	Corporate interest	Interest in underlying shares pursuant to share options	Total	Percentage of shareholding
		No. of shares					
Consen Investments	Mr. Xuan	3,000,000	–	–	–	3,000,000	50%
	Mr. Huang	1,500,000	–	–	–	1,500,000	25%
	Mr. Kuang	1,500,000	–	–	–	1,500,000	25%
Consen Group (Note)	Mr. Xuan	–	–	5,000,000	–	5,000,000	93.8%

Note: Consen Investments was the legal and beneficial owner of 5,000,000 shares in Consen Group. Consen Investments was legally and beneficially owned as to 50% by Mr. Xuan, 25% by Mr. Huang and 25% by Mr. Kuang. Accordingly, Mr. Xuan was deemed to be interested in the 5,000,000 shares held by Consen Investments in Consen Group.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the interests of persons (not being a Director or chief executive of the Company) in the shares or underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:–

Name	Capacity	Number of shares	Percentage of holding
Consen Group	Registered & beneficial owner	457,933,541	44.62%
Consen Investments (Note)	Interest in a controlled corporation	457,933,541	44.62%

Note: Consen Group was owned as to 93.80% by Consen Investments and 6.20% by Gembest. Therefore, Consen Investments was deemed to be interested in such 457,933,541 shares held by Consen Group under the SFO.

All the interests stated above represent long positions.

Save as disclosed above, as at 31 December 2013, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

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 of the Company; (v) any associates of directors, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial shareholders of the Company. 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 total number of shares of the Company in issue as at 25 April 2014, 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 of the Company or independent non-executive Directors in any 12-month period in excess of 0.1% of the Company's share capital in issue and with an aggregate value, based on the closing price of the shares at the date of each grant, 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 participants on acceptance of the option as consideration for the grant within 28 days from the date upon which the offer is made. Options may be exercised at any time from twelve months from the date of grant of the share option to the five anniversary of the date of grant. 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 trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

As at 1 January 2013 and 31 December 2013, no options remained outstanding under the Scheme (31 December 2012: no options remained outstanding). No option was granted, exercised, cancelled or lapsed during the year and as at the date of this annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2013, the Company has not repurchased any of its shares on the Stock Exchange.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in the Cayman Islands in respect of the Company's share capital.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and revenue for the year ended 31 December 2013 attributable to the Group's major suppliers and customers respectively are as follow:

	2013 %	2012 %
Purchases		
– the largest supplier	12.7	10.6
– the five largest suppliers combined	26.2	18.7
Revenue		
– the largest customer	10.3	8.6
– the five largest customers combined	35.9	32.2

None of the Directors, their associates, or shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) held any interests in the five largest suppliers or customers noted above.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and considers the independent non-executive Directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of the annual report, it is confirmed that there is sufficient public float of the Company's issued shares in the market.

AUDIT COMMITTEE

The Company has set up an audit committee in accordance with the requirements of Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The consolidated financial statements of the Group for the six months ended 30 June 2013 and the year ended 31 December 2013 and the related disclosures have been reviewed and approved by the audit committee.

AUDITORS

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu Certified Public Accountants who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Xuan Rui Guo
Chairman
Hong Kong, 26 March 2014

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures which serve as an important element of risk management throughout the growth and expansion of the Company. The Company emphasizes on maintaining and carrying out sound, solid and effective corporate governance principles and structures.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in full compliance with all of the applicable code provisions set out in the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2013.

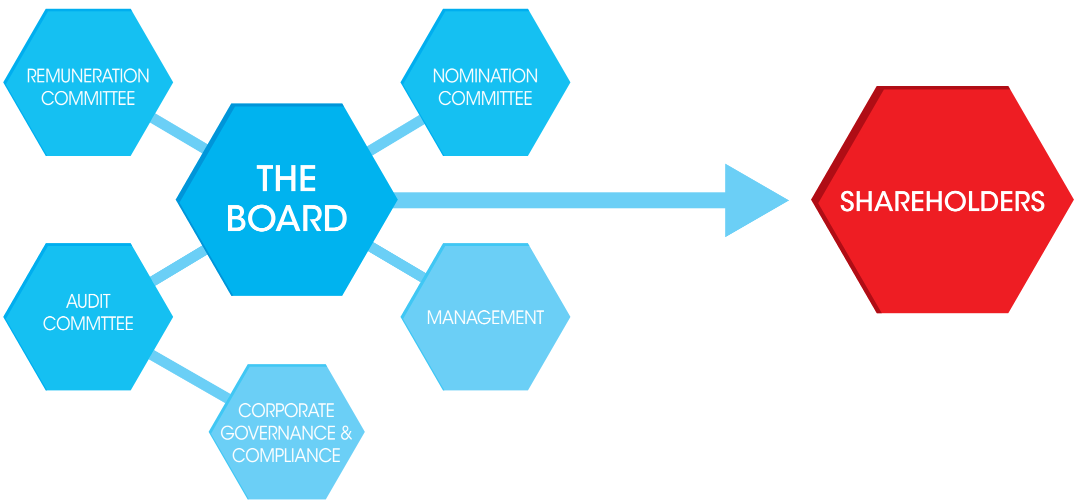
DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all the Directors, and all of them had confirmed that they have complied with the required standard of dealings set out therein during the year ended 31 December 2013.

BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board. The Board has delegated the day-to-day management of the Company's business to the executive management team, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. Major responsibilities of the Board include approving the Company's overall business, financial and technical strategies, setting key performance targets, approving budgets and overseeing the performance of management.

As at the date of this annual report, the Board comprised six members, consisting of three executive Directors, namely Mr. Xuan Rui Guo (the chairman), Mr. Huang Zhi Yong and Mr. Kuang Jian Ping (the chief executive officer); and three independent non-executive Directors, namely



Mr. Wang Tai Wen, Mr. Sui Yong Bin and Mr. Ng Wing Fai. The roles of the chairman and chief executive officer are segregated. The profile of all the Directors, including the chairman, executive Directors and independent non-executive Directors are set out on pages 19 to 20 of this annual report. The relationship among members of the Board (including financial, business, family or other material or relevant relationships, if any) are also disclosed.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the Listing Rules, and considers all of the independent non-executive Directors to be independent.

Four Board meetings were held during the Relevant Period. Directors actively participated in each meeting in person or via telephone conferencing. Directors received reports on the activities of the operating divisions and present papers supporting decisions which required the Board approval. The Board consents were given by vote at the Board meetings.

If a Director has conflict of interest in a transaction or proposal to be considered by the Board and which the Board has determined to be material, the individual Director concerned declares his interest and is required to abstain from voting. The matter is considered at a Board meeting attended by independent non-executive Directors who have no material interest in the transaction.

Details of the attendance of Directors at these Board meetings, committee meetings (the audit committee, the remuneration committee and the nomination committee) and general meetings in the Relevant Period are set out in the following table:

	Meetings attended/Meetings held (during director's tenure)				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**AGM**
Executive Directors					
Mr. Xuan Rui Guo	4/4	N/A	1/1	1/1	0/1
Mr. Huang Zhi Yong	4/4	N/A	1/1	N/A	1/1
Mr. Kuang Jian Ping	4/4	N/A	N/A	1/1	0/1
Independent non-executive Directors					
Mr. Wang Tai Wen	4/4	2/2	1/1	1/1	1/1
Mr. Ng Wing Fai	4/4	2/2	1/1	1/1	1/1
Mr. Sui Yong Bin	4/4	2/2	1/1	1/1	0/1

Minutes of Board meetings are taken by the company secretary and, together with any supporting documents, are available to all the Directors. Draft and final versions of the minutes are sent to all the Directors for their comment and record respectively.

All the Directors have access to the services of the company secretary who regularly updates the Board on governance and regulatory matters.

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure proper understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by individual Directors in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2013 is recorded in the table below.

Name of Director	**Reading regulatory updates**	**Attending external seminars/ programmes**
Executive Directors		
Mr. Xuan Rui Guo	✓	✓
Mr. Huang Zhi Yong	✓	✓
Mr. Kuang Jian Ping	✓	✓
Independent non-executive Directors		
Mr. Wang Tai Wen	✓	✓
Mr. Ng Wing Fai	✓	✓
Mr. Sui Yong Bin	✓	✓

AUDIT COMMITTEE

The Audit Committee was established in June 2007 and its current members include:

Mr. Ng Wing Fai *(Committee Chairman)*
Mr. Sui Yong Bin
Mr. Wang Tai Wen

The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in legal, business and accounting on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The written terms of reference which describe the authority and duties of the Audit Committee were approved and adopted on 30 March 2012 to conform to the provisions of the Code and the Listing Rules, a copy of which is posted on the Company's website.

The Audit Committee meets regularly to review the Group's financial reporting and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectively of the audit process. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

The Audit Committee met twice during the Relevant Period to review and discuss internal controls and financial reporting matters including a review of the financial statements for the six months ended 30 June 2013 and the year ended 31 December 2013.

REMUNERATION COMMITTEE

The Remuneration Committee was established in June 2007 and the current members include:

Mr. Wang Tai Wen *(Committee Chairman)*
Mr. Sui Yong Bin
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Huang Zhi Yong

The Remuneration Committee advises and makes recommendations to the Board on the Group's overall policy and structure for the remuneration of Directors and senior management. The Remuneration Committee ensures that no Director or any of his associate is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee were approved and adopted on 30 March 2012 to conform to the provisions of the Code, a copy of which is posted on the Company's website.

In determining the emolument payable to Directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The Remuneration Committee meets regularly to determine the policy for the remuneration of Directors and assess performance of executive Directors and certain senior management. One Remuneration Committee meeting was held during the Relevant Period and all members have attended in the meeting.

NOMINATION COMMITTEE

The Nomination Committee was established in June 2007.

The Nomination Committee comprises five members include:

Mr. Sui Yong Bin *(Committee Chairman)*
Mr. Ng Wing Fai
Mr. Wang Tai Wen
Mr. Xuan Rui Guo
Mr. Kuang Jian Ping

The written terms of reference which describe the authority and duties of Nomination Committee were approved and adopted on 30 March 2012 to conform to the provisions or the Code and the Listing Rules, a copy of which is posted on the Company website.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors.

The Nomination Committee reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

The Board adopted a board diversity policy for the Company in August 2013 which stipulates that for selection of candidates to become Directors, the Nomination Committee should based on a range of diversity perspectives, including but not limited to age, experience, cultural and educational background, expertise, skills and know-how. The Board diversity policy is available on the website of the Company. The Committee will review the policy to ensure its effectiveness.

In accordance with the Articles of Association, Mr. Huang Zhi Yong and Mr. Sui Yong Bin, shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

AUDITORS' REMUNERATION

For the year ended 31 December 2013, the fees charged by the Company's auditors in respect of audit and non-audit (taxation) services amounted to approximately RMB2,960,000 (2012: RMB2,660,000) and RMB160,000 (2012: RMB820,129) respectively.

COMPANY SECRETARY

Mr. Chow Chiu Chi is the company secretary of the Company. Mr. Chow is an associate member of the Chartered Institute of Management Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. In compliance with Rule 3.29 of the Listing Rules, Mr. Chow has undertaken no less than 15 hours of relevant professional training during the Relevant Period.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the auditors for the accounts are set out in the Independent Auditor's Report on page 33 of this annual report.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. In this connection, the management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; ensuring the maintenance of proper accounting records for internal use or for publication; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

COMMUNICATION WITH SHAREHOLDERS

The Group believes that effective communication with investors in developing of business is essential. Since the listing of the Company in July 2007, it has devoted itself to strengthen the good communication with all shareholders, investors, analysts and public media all the time in order to enhance the level of corporate governance.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are printed and sent to all shareholders. Press releases are posted on the Company's website www.cag.com.hk, which is constantly being updated in a timely manner, and so contains additional information on the Group's business activities.

The Directors have been continuing to put their utmost effort to develop the direct communication channels with all investors to deepen their understanding in business, strategy and future development of the Group.

SHAREHOLDERS' RIGHTS

PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

Under Article 58 of the Articles of Association of the Company, any one or more shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of the deposit of such written requisition, the Board fails to proceed to convene such general meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

To put forward a proposal at the general meeting of the Company (the "Proposal"), a shareholder should lodge at the head office and 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, a written notice setting out (i) information of the shareholder and his/her/its contact details and (ii) details of the Proposal and relevant supporting documents.

MAKING ENQUIRIES TO THE BOARD

Shareholders may send written enquiries, either by post or by facsimiles, together with his/her contact details, such as postal address, fax or email, addressing either to (i) the head office and 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 or facsimile number (852) 2598 6633; or (ii) the principal place of business of the Company in No. 7, Beijing Anxiang Street, Konggang Industrial District B, Shunyi District, Beijing, China, 101318 or facsimile number (86) 10 8046 9966.

INVESTOR RELATIONS

AMENDMENT OF THE COMPANY'S CONSTITUTIONAL DOCUMENTS

There have been no changes to the Company's constitutional documents during the Relevant Period.

Deloitte.
德勤

TO THE MEMBERS OF CHINA AUTOMATION GROUP LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 107, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Revenue	5	**2,308,801**	2,210,754
Cost of sales		**(1,480,486)**	(1,345,589)
Gross profit		**828,315**	865,165
Other income	7	**73,231**	75,437
Other gains and losses	8	**(51,155)**	(75,342)
Selling and distribution expenses		**(209,721)**	(184,431)
Administrative expenses		**(277,119)**	(289,202)
Research and development expenses		**(95,881)**	(74,333)
Other expenses		**(8,136)**	(10,565)
Finance costs	9	**(135,145)**	(131,278)
Share of results of associates		**(1,592)**	(12,698)
Share of results of a joint venture		**(510)**	–
Profit before taxation		**122,287**	162,753
Income tax expense	10	**(37,338)**	(34,341)
Profit for the year	11	**84,949**	128,412
Other comprehensive income for the year (net of tax)			
Items that maybe subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**9,389**	1,071
Share of translation reserve of a joint venture		**(170)**	–
Total comprehensive income for the year		**94,168**	129,483
Profit for the year attributable to:			
Owners of the Company		**73,574**	84,583
Non-controlling interests		**11,375**	43,829
		84,949	128,412
Total comprehensive income attributable to:			
Owners of the Company		**82,793**	85,654
Non-controlling interests		**11,375**	43,829
		94,168	129,483
Earnings per share	15		
Basic (RMB cents)		**7.17**	8.24

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current Assets			
Property, plant and equipment	16	**471,037**	446,301
Deposit for acquisition of property, plant and equipment		**13,848**	–
Prepaid lease payments – non-current portion	17	**109,669**	112,439
Intangible assets	18	**454,031**	394,693
Goodwill		**141,792**	141,792
Interests in associates	20	**24,496**	26,088
Interest in a joint venture	21	**4,837**	–
Pledged bank deposits	28	**473**	27,280
Deferred tax assets	22	**36,077**	29,905
Available-for-sale financial assets	23	**64,217**	64,217
Embedded derivative financial asset	33	**3,954**	9,573
		1,324,431	1,252,288
Current Assets			
Prepaid lease payments – current portion	17	**2,770**	2,770
Inventories	24	**750,704**	857,216
Trade and bills receivables	25	**1,824,813**	1,699,960
Other receivables and prepayments	26	**203,182**	185,159
Amounts due from customers for contract work	27	**74,323**	118,635
Pledged bank deposits	28	**140,414**	65,776
Bank balances and cash	29	**457,103**	494,819
		3,453,309	3,424,335
Current Liabilities			
Trade payables	30	**425,453**	480,493
Other payables, deposits received and accruals	31	**492,098**	379,918
Amount due to an associate	47(c)	**–**	15,000
Amount due to a non-controlling shareholder	47(c)	**4,660**	–
Dividend payable		**6**	6
Income tax payable		**25,504**	22,685
Bank borrowings – due within one year	32	**397,387**	350,514
Corporate bonds		**–**	49,516
		1,345,108	1,298,132
Net Current Assets		**2,108,201**	2,126,203
Total Assets less Current Liabilities		**3,432,632**	3,378,491

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Capital and Reserves			
Share capital	34	**9,548**	9,548
Share premium and reserves	35	**1,813,096**	1,750,751
Equity attributable to owners of the Company		**1,822,644**	1,760,299
Non-controlling interests		**341,330**	315,055
Total Equity		**2,163,974**	2,075,354
Non-current Liabilities			
Deferred tax liabilities	22	**60,968**	58,091
Bank borrowings – due after one year	32	**–**	10,000
Guaranteed notes	33	**1,146,863**	1,173,115
Deferred income	36	**60,827**	61,931
		1,268,658	1,303,137
Total Equity and Non-current Liabilities		**3,432,632**	3,378,491

The consolidated financial statements on pages 34 to 107 were approved and authorised for issue by the Board of Directors on 26 March 2014 and are signed on its behalf by:

Director | *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 December 2013

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note 35 a)	Statutory surplus reserves RMB'000 (Note 35 b)	Contribution from owners RMB'000	Translation reserve RMB'000	Share option reserve RMB'000 (Note 35 c)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	9,548	648,367	29,507	73,445	619	(416)	6,713	926,663	1,694,446	281,376	1,975,822
Profit for the year	–	–	–	–	–	–	–	84,583	84,583	43,829	128,412
Exchange difference arising on translation of foreign operations	–	–	–	–	–	1,071	–	–	1,071	–	1,071
Total comprehensive income for the year	–	–	–	–	–	1,071	–	84,583	85,654	43,829	129,483
Acquisition of subsidiaries (Note 39)	–	–	–	–	–	–	–	–	–	65,190	65,190
Acquisition of assets through acquisition of a subsidiary (Note 40)	–	–	–	–	–	–	–	–	–	294	294
Acquisition of additional interest in a subsidiary	–	–	5,159	–	–	–	–	–	5,159	(71,134)	(65,975)
Appropriations to reserves	–	–	–	16,268	–	–	–	(16,268)	–	–	–
Dividend declared to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	(4,500)	(4,500)
Effects of lapse of share option	–	–	–	–	–	–	(6,713)	6,713	–	–	–
Dividend distributed (Note 14)	–	–	–	–	–	–	–	(24,960)	(24,960)	–	(24,960)
At 31 December 2012	9,548	648,367	34,666	89,713	619	655	–	976,731	1,760,299	315,055	2,075,354
Profit for the year	–	–	–	–	–	–	–	73,574	73,574	11,375	84,949
Exchange difference arising on translation of foreign operations	–	–	–	–	–	9,389	–	–	9,389	–	9,389
Share of translation reserve of a joint venture (Note 21)	–	–	–	–	–	(170)	–	–	(170)	–	(170)
Total comprehensive income for the year	–	–	–	–	–	9,219	–	73,574	82,793	11,375	94,168
Increase of non-controlling interests (Note 40)	–	–	–	–	–	–	–	–	–	35,550	35,550
Appropriations to reserves	–	–	–	22,241	–	–	–	(22,241)	–	–	–
Dividend declared to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	(20,650)	(20,650)
Dividend distributed (Note 14)	–	–	–	–	–	–	–	(20,448)	(20,448)	–	(20,448)
At 31 December 2013	**9,548**	**648,367**	**34,666**	**111,954**	**619**	**9,874**	**–**	**1,007,616**	**1,822,644**	**341,330**	**2,163,974**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**122,287**	162,753
Adjustments for:			
Share of results of a joint venture		**510**	–
Share of results of associates		**1,592**	12,698
Gain on disposal of business		**(6,705)**	–
Finance costs		**135,145**	131,278
Depreciation of property, plant and equipment		**47,310**	37,077
Prepaid lease payments released		**2,770**	1,450
Amortisation of intangible assets		**24,052**	24,999
Deferred income released to income		**(24,711)**	(19,723)
Change in fair value of derivatives		**5,619**	(9,573)
Gain on repurchase of guaranteed notes		**–**	(1,295)
Loss (gain) on disposal of property, plant and equipment		**11**	(137)
Loss on re-measurement of interest in an associate		**–**	14,019
Impairment losses on trade and other receivables		**59,673**	71,821
Interest income		**(2,952)**	(3,804)
Operating cash flows before movements in working capital		**364,601**	421,563
Decrease (increase) in inventories		**106,512**	(117,043)
Increase in trade and bills receivables		**(195,856)**	(258,864)
Increase in other receivables and prepayments		**(15,384)**	(56,478)
Decrease (increase) in amounts due from customers for contract work		**44,312**	(85,460)
(Decrease) increase in trade payables		**(49,449)**	18,956
Increase in deferred income		**23,607**	33,392
Increase in other payables and accruals		**94,551**	103,639
Cash generated from operations		**372,894**	59,705
Income tax paid		**(37,814)**	(39,611)
Net cash generated from operating activities		**335,080**	20,094
INVESTING ACTIVITIES			
Interest received		**2,952**	3,804
Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment		**(82,956)**	(81,062)
Proceeds on disposal of property, plant and equipment		**397**	458
Addition to intangible assets		**–**	(12,545)
Development costs paid		**(47,840)**	(14,891)
Investment in associates		**–**	(25,000)
Investment in a joint venture		**(5,517)**	–
Acquisition of a subsidiary	39	**–**	(37,269)
Acquisition of assets through acquisition of a subsidiary	40	**–**	(25,861)
Disposal of business	41	**7,346**	–
Placement of pledged bank deposits		**(79,980)**	(71,217)
Withdrawal of pledged bank deposits		**32,149**	81,202
Net cash used in investing activities		**(173,449)**	(182,381)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
FINANCING ACTIVITIES			
New bank borrowings raised		**558,360**	514,102
Repayments of bank borrowings		**(521,487)**	(475,236)
Repayments of corporate bonds		**(50,000)**	–
Interest paid		**(126,231)**	(112,269)
Repurchase of 2016 Guarantee notes (as defined in Note 33)		**–**	(4,791)
Borrowing from an associate		**–**	15,000
Repayments of borrowing from an associate		**(15,000)**	–
Repayments of borrowing from a non-controlling shareholder		**–**	(1,595)
Dividends paid to owners of the Company		**(20,448)**	(24,959)
Dividends paid to non-controlling shareholders		**(15,990)**	(4,500)
Acquisition of additional interest in a subsidiary	39	**–**	(65,975)
Net cash used in financing activities		**(190,796)**	(160,223)
Net decrease in cash and cash equivalents		**(29,165)**	(322,510)
Cash and cash equivalents at beginning of the year		**494,819**	817,905
Effect of foreign exchange rate changes		**(8,551)**	(576)
Cash and cash equivalents at end of the year		**457,103**	494,819
Analysis of the balances of cash and cash equivalents:			
represented by			
Bank balances and cash		**457,103**	494,819

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 Investment Holding Limited incorporated in the British Virgin Islands. 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 new or revised standards, amendments and interpretation ("new or revised IFRSs") issued by the International Accounting Standards Board ("IASB") that are mandatorily effectively for the current year.

Amendments to IFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRIC-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised 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.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONT'D)

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding transitional guidance.

The impact of the application of these standards is set out below.

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, SIC13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with applicable standards.

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 20, 21 and 49 for details).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONT'D)

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application. In accordance with the transitional provisions of IFRS 13, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see note 38(c) for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to IAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONT'D)

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has early adopted the amendments to IAS 36 issued by the IASB in advance of its effective date, 1 January 2014. The amendments to IAS 36 withdraw the disclosure requirements for an entity to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. An entity only needs to disclose the recoverable amount of the asset (cash-generating unit) for an individual asset (including goodwill) or a cash-generating unit, for which an impairment loss has been recognised or reversed during the year.

The early adoption does not have any effect on the Group's operating results, financial positions or comprehensive income.

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.

Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[2]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first annual IFRS financial statements beginning on or after 1 January 2016

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 statement.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONT'D)

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 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised 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 amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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 recognised 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 attributable to a financial liability's 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 is presented in profit or loss.

The Directors anticipate that the adoption of IFRS 9 may affect the measurement of the available-for-sale equity investment currently measured at cost less impairment. Other than the available-for-sale equity investments, the Directors do not expect IFRS 9 will have any material impact on the results and financial position of the Group based on an analysis of the Group's investment as at 31 December 2013.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.

- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.

- Measure and evaluate performance of substantially all of its investments on a fair value basis.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONT'D)

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (Cont'd)

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The Directors do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off "and "simultaneous realisation and settlement".

The Directors do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

IFRIC – 21 Levies

IFRIC – 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The Directors anticipate that the application of IFRIC – 21 will have no effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS. 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.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

In addition, for financial reporting purposes, fair value measurements are categorised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Acquisition of a subsidiary classified as an asset acquisition

In respect of acquisition of a subsidiary which does not constitute a business, the acquirer shall identify and recognise the individual identifiable assets acquired and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

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 recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised 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 recognised 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 recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities are recognised 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 recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Business combinations (Cont'd)

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 recognised 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 recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised 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 recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in associates and joint ventures (Cont'd)

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 recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise 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 recognising its share of further losses. Additional losses are recognised 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 recognised 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 recognised immediately in profit or loss in the period in which the investment is acquired.

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 recognised 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 recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in associates and joint ventures (Cont'd)

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 recognised 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 recognised 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 recognised 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 recognised as revenue over the period during which the service is performed. Service fees received in advance are recorded as deferred income and recognised as service fee income when the services are rendered.

Revenue from sale of goods is recognised when goods are delivered and title has passed.

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

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

Revenue for software sales (that do not involve significant implementation or customisation) is recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 recognised 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 recognised 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 derecognised 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 recognised 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 amortisation 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 recognised 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 recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Construction contracts (Cont'd)

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

Where contract costs incurred to date plus recognised profits less recognised 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 recognised profits less recognised 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 recognised as an expense on a straight-line basis over the term of the relevant lease. Contingent rental arising under operating leases are recognised 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 recognised 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 amortised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 recognised 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 recognised 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 recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised 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 recognised in profit or loss on a systematic basis over the periods in which the Group recognises 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 recognised 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 recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Retirement benefits costs

Payments to defined contribution retirement benefits schemes, including state-managed retirement benefits schemes in People's Republic of China ("PRC") and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised 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 recognised 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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 recognised 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 recognised 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 realised, 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 recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation 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 recognised 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 recognised 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 recognised 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 recognised, 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 amortisation and accumulated impairment losses (if any).

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised 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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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 recognised 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 recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised 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 recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (Cont'd)

Financial assets

The Group's financial assets are classified into financial assets at FVTPL, loans and receivables and available-for-sale financial asset. 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 amortised 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 recognised 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 recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (Cont'd)

Financial assets (Cont'd)

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 amortised 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-organisation.

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 amortised cost, the amount of the impairment loss recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

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 recognised 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 amortised 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 recognised, the previously recognised 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 amortised cost would have been had the impairment not been recognised.

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 recognised at the proceeds received, net of direct issue costs.

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

Effective interest method

The effective interest method is a method of calculating the amortised 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 recognised on an effective interest basis.

Other financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (Cont'd)

Derecognition

The Group derecognises 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 recognise the financial asset and also recognises a collateralised 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 recognised in profit or loss.

The Group derecognises 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 derecognised and the consideration paid and payable is recognised 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 recognised 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 recognised 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 recognised 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D)

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 amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised 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 2013, the aggregate carrying amount of trade and other receivables (net of allowance for doubtful debts), was approximately RMB1,961,698,000 (2012: RMB1,756,864,000). Details of movements of allowance for trade receivables and other receivables are disclosed in Notes 25 and 26 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 The People's Republic of China (the "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.

Useful lives of license

The Group's management determines the useful lives and related amortisation 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 Ministry of Railway and the railway accident occurred due to the railway safety equipment manufactured by the Company's subsidiaries. Management will increase the amortisation where useful lives are less than previously estimated, or it will write-off the carrying amount.

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.

As at 31 December 2013, the carrying amount of goodwill is RMB141,792,000 (2012: RMB141,792,000). Details of the recoverable amount calculation are disclosed in Note 19.

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2013 RMB'000	2012 RMB'000
Sales of goods		
System sales	**1,185,473**	1,200,817
Trading of equipment	**185,688**	252,191
Software sales	**68,599**	104,554
Industrial control valves sales	**529,661**	283,059
	1,969,421	1,840,621
Provision of service		
Provision of maintenance and engineering services	**221,885**	215,896
Design and consulting services	**117,495**	154,237
	2,308,801	2,210,754

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 ("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 services and sales of software products for the petrochemical, chemical, oil and gas and coal chemical industries, manufacture of industry automatic control valves

Railway – integration and sales of safety and critical control systems, trading of equipment, provision of maintenance and engineering services and sales of software products for the railway industry

6. SEGMENT INFORMATION (CONT'D)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

2013

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	**1,747,882**	**560,919**	**2,308,801**
Segment profit before tax	**175,263**	**71,779**	**247,042**
Income tax expense	**(27,311)**	**(10,027)**	**(37,338)**
Segment profit	**147,952**	**61,752**	**209,704**
Unallocated other income			**4**
Unallocated administrative expenses			**(17,424)**
Unallocated other gains and losses			**(5,752)**
Unallocated finance costs			**(101,583)**
Profit for the year			**84,949**

2012

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	1,470,526	740,228	2,210,754
Segment profit before tax	208,459	51,154	259,613
Income tax expense	(20,898)	(13,443)	(34,341)
Segment profit	187,561	37,711	225,272
Unallocated other income			611
Unallocated administrative expenses			(10,930)
Unallocated other gains and losses			11,655
Unallocated finance costs			(98,196)
Profit for the year			128,412

All of the segment revenue reported above is from external customers.

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 and finance costs of the Company. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

6. SEGMENT INFORMATION (CONT'D)

Segment assets and liabilities

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

	2013 RMB'000	2012 RMB'000
Segment assets		
Petrochemical	2,956,814	2,914,884
Railway	1,741,539	1,747,033
Total segment assets	4,698,353	4,661,917
Other assets	79,387	14,706
Consolidated assets	4,777,740	4,676,623
Segment liabilities		
Petrochemical	916,403	912,786
Railway	499,489	514,841
Total segment liabilities	1,415,892	1,427,627
Guaranteed notes	1,146,863	1,173,115
Other liabilities	51,011	527
Consolidated liabilities	2,613,766	2,601,269

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

- all assets are allocated to operating segments other than bank balances and cash and property, plant and equipment of the Company.
- all liabilities are allocated to operating segments other than other payables, dividend payable, guaranteed notes and bank borrowings of the Company.

6. SEGMENT INFORMATION (CONT'D)

Other segment information

Amounts included in the measure of segment profit or segment assets:

2013	Petrochemical RMB'000	Railway RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	32,913	23,778	38,461	95,152
Interests in associates	24,496	–	–	24,496
Interests in a joint venture	–	4,837	–	4,837
Depreciation and amortisation	45,058	23,629	2,675	71,362
Release of prepaid lease payment	1,886	397	487	2,770
Loss on disposal of property, plant and equipment	–	11	–	11
Impairment losses on trade and other receivables recognised in profit or loss	7,653	52,020	–	59,673
Share of losses of associates	1,592	–	–	1,592
Share of loss of a joint venture	–	510	–	510
Interest income	1,976	972	4	2,952
Interest expense	25,926	7,636	101,583	135,145

2012	Petrochemical RMB'000	Railway RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	205,885	84,799	(10)	290,674
Interests in associates	26,088	–	–	26,088
Depreciation and amortisation	38,418	23,648	10	62,076
Release of prepaid lease payment	1,053	397	–	1,450
(Gain) loss on disposal of property, plant and equipment	(149)	12	–	(137)
Impairment losses on trade and other receivables recognised in profit or loss	5,783	66,038	–	71,821
Share of losses of associates	3,991	8,707	–	12,698
Interest income	2,639	1,145	20	3,804
Interest expense	22,590	10,492	98,196	131,278

Note: Non-current assets excluding financial instruments and deferred tax assets.

6. SEGMENT INFORMATION (CONT'D)

Geographical information

The Group operates principally in the PRC (including Hong Kong), and overseas countries (including the United States of America ("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)	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
PRC	**2,098,885**	2,057,153	**1,185,152**	1,088,880
Overseas countries	**209,916**	153,601	**5,225**	6,345
	2,308,801	2,210,754	**1,190,377**	1,095,225

Note: Non-current assets excluded financial instruments and deferred tax assets.

Revenue by products and services

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

Information about major customers

Revenue from individual customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2013 RMB'000	2012 RMB'000
Petrochemical – Customer A	**238,763**	N/A[1]

[1] For the year ended 31 December 2012, no individual customer contributes over 10% of the total sales of the Group.

7. OTHER INCOME

	2013 RMB'000	2012 RMB'000
Bank interest income	**2,952**	3,804
Value added tax ("VAT") refund (Note i)	**40,717**	48,634
Government grant (Note ii)	**27,120**	16,453
Others	**2,442**	6,546
	73,231	75,437

Notes:

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

ii. Government grants mainly include the government subsidies received by the Company's subsidiaries from relevant government bodies in connection with technology development. All the grants were recognised at the time the grants are receivable for which compensation for expenses are already incurred.

8. OTHER GAINS AND LOSSES

	2013 RMB'000	2012 RMB'000
(Loss) gain on embedded derivative financial asset (Note 33)	**(5,619)**	9,573
Gain on repurchase of 2016 Guaranteed notes (Note 33)	**–**	1,295
(Loss) gain on disposal of property, plant and equipment	**(11)**	137
Net foreign exchange gain (loss)	**7,443**	(507)
Loss on re-measurement of interest in an associate (Note 39)	**–**	(14,019)
Allowance for bad and doubtful debts	**(59,673)**	(71,821)
Gain on disposal of business	**6,705**	–
	(51,155)	(75,342)

9. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest expenses on borrowings wholly repayable within five years	**31,750**	28,337
Interest expenses on corporate bonds	**2,173**	2,707
Interest expenses on guaranteed notes	**101,222**	100,234
	135,145	131,278

No interest was capitalised during the current and prior years.

10. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Current tax charge comprises		
PRC enterprise income tax	**38,635**	46,536
Hong Kong Profits Tax	**1,993**	53
Other jurisdictions	**5**	7
	40,633	46,596
Deferred tax credit (Note 22)	**(3,295)**	(12,255)
	37,338	34,341

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 year, Beijing Shang Fang Yun Shui Software Technology Co., Ltd ("Beijing Shang Fang") is under the second year of 50% tax reduction. Beijing Heng Tai Ri Xin Software Technology Co., Ltd ("Beijing Heng Tai") and Ningxia Fei Mai Sen Process Control Technology Co., Ltd ("Ningxia Fei Mai Sen ") are both under the second year of tax exemption.

Beijing Consen Automation Control Co., Ltd. ("Beijing Consen"), Beijing Consen Transportation Technology Co., Ltd. ("Beijing Transportation"), Beijing Jiaoda Microunion Technology Co., Ltd. ("Beijing Jiaoda Microunion"), Beijing Sindhu Industrial Software Co., Ltd. ("Beijing Software"), Nanjing Huashi Electronic Scientific Co., Ltd. ("Nanjing Electronic Scientific "), Zhongjing Engineering Software Technology Company Limited ("Zhongjing") and Wuzhong Instrument Co. Ltd ("Wuzhong") are qualified as "New and High Tech Enterprises", which are subject to 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 began from 2010 for Zhongjing and Wuzhong, both of which are re-qualified in 2012, and 2011 for Beijing Consen, Beijing Transportation, Beijing Software and Beijing Jiaoda Microunion, all of which are re-qualified in 2013, and 2012 for Nanjing Electronic Scientific.

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.

10. INCOME TAX EXPENSE (CONT'D)

The income tax charge for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2013 RMB'000	2012 RMB'000
Profit before taxation	**122,287**	162,753
Tax at the PRC income tax rate of 25% (2012: 25%)	**30,572**	40,688
Tax effect of share of results of associates	**398**	3,175
Tax effect of share of results of a joint venture	**128**	–
Tax effect of expenses not deductible for tax purpose	**11,349**	22,668
Tax effect of income not taxable for tax purpose	**(8,209)**	(12,724)
Tax effect of tax losses not recognised	**35,957**	27,399
Utilisation of tax losses previously not recognised	**(1,798)**	–
Effect of different tax rates of subsidiaries	**(1,026)**	(246)
Effect of tax benefit granted to certain PRC subsidiaries	**(34,871)**	(49,921)
Deferred tax associated with withholding tax on undistributed profits of PRC subsidiaries	**4,838**	3,302
Tax charge for the year	**37,338**	34,341

Under the EIT Law, withholding tax of 5% is imposed on dividends declared to foreign investors in respect of profit earned by 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 management of the Group to be distributed in the foreseeable future.

The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised amounted to approximately RMB944,630,000 (2012: RMB855,147,000), 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. PROFIT FOR THE YEAR

	2013 RMB'000	2012 RMB'000
Profit for the year is arrived at after charging the following items:		
Auditors' remuneration	3,446	3,521
Depreciation of property, plant and equipment	47,310	37,077
Release of prepaid lease payments	2,770	1,450
Amortisation of intangible assets included in		
– Administrative expense	15,950	17,246
– Cost of sales	8,102	7,753
Staff costs:		
Directors' emoluments (Note 12)	4,110	6,531
Other staff costs		
– Salaries and other benefits	312,181	224,770
– Retirement benefits scheme contributions	21,755	8,821
	338,046	240,122

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to the Company's directors and the chief executive were as follows:

	2013				
	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Performance related incentive payments RMB'000	Total emoluments RMB'000
Executive directors					
Mr. Xuan Rui Guo (Note)	–	1,553	54	–	1,607
Mr. Kuang Jian Ping	–	964	54	–	1,018
Mr. Huang Zhi Yong	–	951	54	–	1,005
Sub-total	–	3,468	162	–	3,630
Independent non-executive directors					
Mr. Wang Tai Wen	144	–	–	–	144
Mr. Ng Wing Fai	192	–	–	–	192
Mr. Sui Yong Bin	144	–	–	–	144
Sub-total	480	–	–	–	480
Total	480	3,468	162	–	4,110

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONT'D)

	2012				
	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Performance related incentive payments RMB'000	Total emoluments RMB'000
Executive directors					
Mr. Xuan Rui Guo (Note)	–	1,585	53	420	2,058
Mr. Kuang Jian Ping	–	923	53	982	1,958
Mr. Huang Zhi Yong	–	936	53	1,039	2,028
Sub-total	–	3,444	159	2,441	6,044
Independent non-executive directors					
Mr. Wang Tai Wen	146	–	–	–	146
Mr. Ng Wing Fai	195	–	–	–	195
Mr. Sui Yong Bin	146	–	–	–	146
Sub-total	487	–	–	–	487
Total	487	3,444	159	2,441	6,531

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 performance related incentive payments of the executive directors are determined by the board of directors and should not be more than 5% of the profit attributable to owners of the Company for the relevant financial year.

During either years, 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 years.

13. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included three directors (2012: three) for the year ended 31 December 2013, whose emoluments are disclosed in note 12 above. The emoluments of the remaining two (2012: two) individuals for the year ended 31 December 2012 and 2013 are as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other benefits	2,029	1,869
Contributions to retirement benefits scheme	119	105
Performance related incentive payments	3,085	1,050
	5,233	3,024

13. EMPLOYEES' EMOLUMENTS (CONT'D)

Their emoluments were within the following bands:

	Number of employees	
	2013	2012
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$2,500,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	–
	2	2

14. DIVIDENDS

Dividends recognised as distribution during the year:

	2013 **RMB'000**	2012 RMB'000
2012 final dividends-HK$2.5 cents per share	**20,448**	–
2011 final dividends-HK$3.0 cents per share	**–**	24,960
	20,448	24,960

During the current year, dividends of approximately HK$25,657,000 (equivalent to RMB20,448,000) at HK$2.5 cents per share in respect of the year ended 31 December 2012 were declared based on 1,026,264,000 shares outstanding as at 31 December 2012, and paid to the owners of the Company.

The Directors do not recommend the payment of a final dividend for the year.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings	**2013** **RMB'000**	2012 RMB'000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**73,574**	84,583

Number of shares	**2013** **'000 shares**	2012 '000 shares
Number of ordinary shares for the purpose of basic earnings per share	**1,026,264**	1,026,264

No diluted earnings per share is presented as there was no potential ordinary shares outstanding during the current and prior years.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Fixtures and electronic equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST						
At 1 January 2012	135,317	12,700	5,313	62,422	34,104	249,856
Acquired on acquisition of subsidiaries (Note 39)	127,996	–	7,458	56,575	2,213	194,242
Additions (Note)	2,053	358	59,094	25,021	1,961	88,487
Transfers	10,323	–	(26,324)	14,860	1,141	–
Disposals	–	–	–	(626)	(293)	(919)
At 31 December 2012	275,689	13,058	45,541	158,252	39,126	531,666
Additions	3,530	–	32,979	32,741	3,204	72,454
Transfers	3,653	–	(8,726)	5,073	–	–
Disposals	–	–	–	(1,431)	(471)	(1,902)
At 31 December 2013	282,872	13,058	69,794	194,635	41,859	602,218
DEPRECIATION						
At 1 January 2012	5,122	5,492	–	20,457	17,815	48,886
Provided for the year	8,530	2,903	–	20,821	4,823	37,077
Disposals	–	–	–	(571)	(27)	(598)
At 31 December 2012	13,652	8,395	–	40,707	22,611	85,365
Provided for the year	11,087	2,121	–	29,645	4,457	47,310
Disposals	–	–	–	(1,072)	(422)	(1,494)
At 31 December 2013	24,739	10,516	–	69,280	26,646	131,181
CARRYING VALUES						
At 31 December 2013	258,133	2,542	69,794	125,355	15,213	471,037
At 31 December 2012	262,037	4,663	45,541	117,545	16,515	446,301

Note: Included in additions for the year ended 31 December 2012 are construction in progress and motor vehicles of RMB7,720,000 resulted from acquisition of assets through acquisition of a subsidiary (Note 40).

16. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

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

Leasehold land and buildings	3%
Leasehold improvements	20%
Fixtures and electronic equipment	10% – 20%
Motor vehicles	20%

The leasehold land and buildings of the Group are located on land in the PRC. As of 31 December 2012, a building with a carrying value of RMB105,734,000 is in the process of obtaining property certificates.

The leasehold interests in land are included in property, plant and equipment as the directors consider that the allocations between the land and buildings elements cannot be made reliably.

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

17. PREPAID LEASE PAYMENTS

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

	2013 **RMB'000**	2012 RMB'000
CARRYING AMOUNT		
At 1 January	**115,209**	43,478
Acquired on acquisition of subsidiaries (Note 39)	**–**	48,814
Acquired on acquisition of assets through acquisition of a subsidiary (Note 40)	**–**	24,367
Released to profit or loss	**(2,770)**	(1,450)
At 31 December	**112,439**	115,209
Analysed for reporting purpose as:		
Current asset	**2,770**	2,770
Non-current asset	**109,669**	112,439

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

18. INTANGIBLE ASSETS

	Development costs RMB'000 (Note i)	Licenses RMB'000	Trademarks RMB'000	Patents RMB'000	Non-patented technologies RMB'000 (Note ii)	Total RMB'000
COST						
At 1 January 2012	30,962	291,082	62,468	6,536	–	391,048
Additions	14,891	–	–	12,545	–	27,436
Acquired on acquisition of subsidiaries (Note 39)	–	–	23,281	3,465	–	26,746
At 31 December 2012	45,853	291,082	85,749	22,546	–	445,230
Additions	47,840	–	–	–	35,550	83,390
At 31 December 2013	93,693	291,082	85,749	22,546	35,550	528,620
AMORTISATION						
At 1 January 2012	8,416	15,157	–	1,965	–	25,538
Provided for the year	4,303	17,247	–	3,449	–	24,999
At 31 December 2012	12,719	32,404	–	5,414	–	50,537
Provided for the year	4,728	13,072	–	3,586	2,666	24,052
At 31 December 2013	17,447	45,476	–	9,000	2,666	74,589
CARRYING VALUES						
At 31 December 2013	76,246	245,606	85,749	13,546	32,884	454,031
At 31 December 2012	33,134	258,678	85,749	17,132	–	394,693

Notes:

i: Development costs are internally generated.

ii: Included in additions for the year ended 31 December 2013 are non-patented technologies of RMB35,550,000 contributed by a non-controlling shareholder of Zhongjing Shihua (as disclosed in Note 40).

18. INTANGIBLE ASSETS (CONT'D)

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

Category	Estimated useful lives
Development costs	5 years
Licenses	2.5-30 years
Patents	5-15 years

The trademarks have a legal life of 10 years but are renewable every 10 years at minimal cost. The directors of the Company 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 management of the Group 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 19.

19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and trademarks with indefinite useful lives have been allocated to five individual cash generating units (CGUs), including four (2012: four) subsidiaries engaged in railway segment and three (2012: three) subsidiaries engaged in petrochemical sales segment. The carrying amounts of goodwill and trademarks as at 31 December 2013 allocated to these units are as follows:

	Goodwill		Trademarks	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Railway				
– Beijing Jiaoda Microunion Technology Co., Ltd (Unit A)	**72,778**	72,778	**61,922**	61,922
– Beijing Consen Transportation Technology Company Limited (Unit A)	**3,397**	3,397	**–**	–
– Nanjing Electronic Scientific (Unit B)	**39,695**	39,695	**–**	–
– Nanjing Huashi Power Equipment Co., Ltd. ("Nanjing Power Equipment") (Unit B)	**17,033**	17,033	**–**	–
Petrochemical				
– Tri-sen Systems Corporation (Unit C)	**–**	–	**546**	546
– Zhongjing (Unit D)	**8,889**	8,889	**–**	–
– Wuzhong (Unit E)	**–**	–	**23,281**	23,281
Total	**141,792**	141,792	**85,749**	85,749

During the year ended 31 December 2013, management of the Group determines that there are no impairments of any of its CGUs containing goodwill and trademarks with indefinite useful lives.

19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONT'D)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amount is determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates of 18.2% (2012: 17.8%) for Unit A, 15.9% (2012: 15.5%) for Unit B, 14.9% (2012: 14.0%) for Unit C, 17.2% (2012: 17.1%) for Unit D, 17.9% (2012: 16.8%) for Unit E depending on the industries in which the subsidiaries operate. One major assumption of the financial budgets is annual revenue growth rates of 8% (2012: 14%) for Unit A, 15% (2012: 30%) for Unit B, 25% (2012: 25%) for Unit C, 5% (2012: 5%) for Unit D, 30% (2012: 30%) for Unit E. The cash flows of the respective CGUs beyond the five-year period are extrapolated using a steady growth rate of 3% (2012: 3%). The growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the stable budgeted gross margin, which is determined based on the subsidiaries' past performance.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each CGU to exceed its recoverable amount.

20. INTERESTS IN ASSOCIATES

	2013 RMB'000	2012 RMB'000
Cost of investments, unlisted	**46,193**	46,193
Share of post-acquisition loss and other comprehensive income, net of dividends received	**(21,697)**	(20,105)
	24,496	26,088

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

Name of entity	Date of establishment	Place of establishment and operation	Fully paid up registered capital	Equity interest attributable to the Group 2013	2012	Principal activities
廣州ABB微聯牽引設備有限公司 ABB Microunion Traction Equipment Limited ("ABB Microunion")	16 July 2010	PRC	US$6,000,000	**50%**	50%	Traction converters and auxiliary converters
上海金子自動化儀錶有限公司 Shanghai Kaneko Auto-Instrument Limited ("Shanghai Kaneko")	27 May 2004	PRC	JPY130,000,000	**23.08%**	23.08%	Manufacture of industrial automatic control valves
遼寧氣輪動力有限公司 Liaoning Steam Turbine Power Co, Ltd	7 September 2012	PRC	RMB100,000,000	**25%**	25%	Manufacture of industrial steam turbines

During the year ended 31 December 2012, the Group increased its equity interest in Wuzhong from 50% to 100% and Wuzhong is accounted for as a subsidiary (Note 39). Shanghai Kaneko, which has been Wuzhong's associate since 2004, becomes an associate of the Group through the acquisition of Wuzhong accordingly.

20. INTERESTS IN ASSOCIATES (CONT'D)

Summarised financial information of material associates

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

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

Liaoning Steam Turbine Power Co, Ltd	**2013 RMB'000**	2012 RMB'000
Current assets	**95,665**	99,835
Non-current assets	**11,334**	188
Current liabilities	**(13,550)**	(23)
Non-current liabilities	**–**	–

Liaoning Steam Turbine Power Co, Ltd	**2013 RMB'000**	2012 RMB'000
Revenue	**5,255**	–
Loss for the year	**(6,551)**	–
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**(6,551)**	–
Dividends received from the associate for the year	**–**	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Net assets of Liaoning Steam Turbine Power Co, Ltd	**93,449**	100,000
Proportion of the Group's ownership interest in Liaoning Steam Turbine Power Co, Ltd	**25%**	25%
Carrying amount of the Group's interest in Liaoning Steam Turbine Power Co, Ltd	**23,362**	25,000

Aggregate information of associates that are not individually material

	2013 RMB'000	2012 RMB'000
The Group's share of profit (loss)	**46**	(12,698)
The Group's share of total comprehensive income	**46**	(12,698)
Aggregate carrying amount of the Group's interests in these associates	**1,134**	1,088

21. INTEREST IN A JOINT VENTURE

	2013 RMB'000	2012 RMB'000
Cost of investments, unlisted	5,517	–
Share of post-acquisition loss	(510)	–
Share of post-acquisition other comprehensive income	(170)	–
	4,837	–

Details of the Group's joint ventures 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 ("CSR Australia")	24 April 2012	Australia	AU$980,000	49%	Provision of technical services and after sales support to freight wagons

22. DEFERRED TAX ASSETS/LIABILITIES

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

	2013 RMB'000	2012 RMB'000
Deferred income tax assets	36,077	29,905
Deferred income tax liabilities	(60,968)	(58,091)
	(24,891)	(28,186)

22. DEFERRED TAX ASSETS/LIABILITIES (CONT'D)

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

	Impairment losses on trade and other receivables	Deferred income	Tax losses	Fair value adjustment of intangible assets (Note a)	Undistributed profits of subsidiary	Other temporary differences (Note b)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	4,577	5,920	764	(50,676)	(6,700)	3,956	(42,159)
Acquisition of subsidiaries (Note 39)	1,089	–	–	–	–	629	1,718
Credit (charge) to profit or loss	9,143	20	(764)	2,587	(3,302)	4,571	12,255
At 31 December 2012	14,809	5,940	–	(48,089)	(10,002)	9,156	(28,186)
Credit (charge) to profit or loss	8,418	(1,434)	–	1,961	(4,838)	(812)	3,295
At 31 December 2013	**23,227**	**4,506**	**–**	**(46,128)**	**(14,840)**	**8,344**	**(24,891)**

Notes:

(a) Deferred tax liabilities of fair value adjustment recognised by the Group represented the fair value adjustment on intangible assets arising from the business acquisitions during the current and prior years.

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

At 31 December 2013, the Group had unused tax losses of approximately RMB377,605,000 (2012: RMB245,576,000) available to offset against future profits of respective subsidiaries. Included in unrecognised tax losses are losses of RMB242,504,000 (2012: RMB167,512,000) that may be carried forward indefinitely.

The other tax losses unrecognised for deferred tax assets that will expire in

	2013	2012
	RMB'000	RMB'000
2013	**–**	4,607
2015	**19,790**	19,790
2016	**25,373**	25,373
2017	**28,294**	28,294
2018	**61,644**	–
Total	**135,101**	78,064

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

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013 RMB'000	2012 RMB'000
Unlisted equity investment, at cost less impairment	**64,217**	64,217

The above unlisted equity investments represent equity investments in private entities established in the PRC and USA. It is 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 its fair values cannot be measured reliably.

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

24. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials	**601,023**	635,688
Work in progress	**106,080**	135,877
Finished goods	**43,601**	85,651
	750,704	857,216

For the year ended 31 December 2013, cost of inventories of approximately RMB1,429,223,000 (2012: RMB1,288,201,000) is recognised 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.

25. TRADE AND BILLS RECEIVABLES

	2013 RMB'000	2012 RMB'000
Trade receivables	**1,750,616**	1,626,463
Less: impairment losses on trade receivables	**(135,184)**	(80,812)
	1,615,432	1,545,651
Bills receivable	**209,381**	154,309
	1,824,813	1,699,960

25. TRADE AND BILLS RECEIVABLES (CONT'D)

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

	2013 RMB'000	2012 RMB'000
United States Dollar ("US$")	**129,783**	91,891
Japanese Yen ("JPY")	**8,881**	38,326
European Dollar ("EUR")	**4,033**	25,066
Singapore Dollar ("SG$")	**114**	–
Indonesian Rupiah ("IDR")	**2,714**	–
	145,525	155,283

At 31 December 2013, included in trade receivables are retention receivable of RMB107,337,000 (2012: RMB95,341,000). Retention receivables are interest-free and recoverable at end of the retention period of individual contract from 12 to 18 months and within the Group's normal operating cycle. As at 31 December 2013, retention receivables with a carrying amount of RMB100,587,000 (2012: RMB71,948,000) are expected to be collected after 12 months from the end of the reporting period.

The normal credit period except for the retention receivables granted to the Group's customers is 90 to 365 days. 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:

	2013 RMB'000	2012 RMB'000
0 – 90 days	**815,337**	850,015
91 – 180 days	**254,305**	280,278
181 – 365 days	**399,839**	294,339
1 – 2 years	**344,233**	257,867
2 – 3 years	**11,099**	17,461
	1,824,813	1,699,960

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 81% of the trade receivables that are neither past due nor impaired are from customers with good payment history.

As at 31 December 2013, trade receivables with a carrying amount of RMB348,582,000 (2012: RMB251,935,000) 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.

25. TRADE AND BILLS RECEIVABLES (CONT'D)

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

	2013 RMB'000	2012 RMB'000
1 – 2 years	337,483	234,474
2 – 3 years	11,099	17,461
Total	348,582	251,935

Movement in the allowance for doubtful debts

	2013 RMB'000	2012 RMB'000
At 1 January	80,812	9,019
Impairment losses recognised on trade receivables	85,157	80,020
Amounts recovered during the year	(29,190)	(8,177)
Amounts written off as uncollectible	(1,595)	(50)
At 31 December	135,184	80,812

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 of the Company believe that no further allowance is required.

Details of trade 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, or factoring to banks, or endorsing to suppliers. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and associated liabilities. These financial assets and liabilities are carried at amortised cost in the Group's consolidated statement of financial position.

25. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2013

	Bills receivable discounted to banks RMB'000	Bills receivable endorsed to suppliers RMB'000	Trade receivables factored to banks RMB'000	Total RMB'000
Carrying amount of transferred assets	11,300	109,277	30,000	150,577
Carrying amount of associated liabilities	(11,300)	(109,277)	(30,000)	(150,577)
Net position	–	–	–	–

As at 31 December 2012

	Bills receivable discounted to banks RMB'000	Bills receivable endorsed to suppliers RMB'000	Trade receivables factored to banks RMB'000	Total RMB'000
Carrying amount of transferred assets	651	29,023	30,000	59,674
Carrying amount of associated liabilities	(651)	(29,023)	(30,000)	(59,674)
Net position	–	–	–	–

26. OTHER RECEIVABLES AND PREPAYMENTS

An analysis of other receivables and prepayments is as follows:

	2013 RMB'000	2012 RMB'000
Prepayments to suppliers	66,297	128,255
Other receivables	140,690	57,003
Less: impairment losses on other receivables	(3,805)	(99)
	203,182	185,159

26. OTHER RECEIVABLES AND PREPAYMENTS (CONT'D)

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

	2013 RMB'000	2012 RMB'000
JPY	**71,858**	–

Movement in the allowance for doubtful debts

	2013 RMB'000	2012 RMB'000
At 1 January	**99**	121
Impairment losses recognised on other receivables	**3,760**	–
Amounts recovered during the year	**(54)**	(22)
At 31 December	**3,805**	99

27. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2013 RMB'000	2012 RMB'000
Constructions in progress at the end of reporting period:		
Contract costs incurred plus recognised profits less recognised losses	**471,010**	613,894
Less: progress billings	**(396,687)**	(495,259)
Analysis for reporting purpose as:		
Amounts due from customers for contract work	**74,323**	118,635

28. PLEDGED BANK DEPOSITS

The pledged bank deposits have been pledged to secure banking facilities granted to the Group. The pledged bank deposits amounting to RMB140,414,000 (2012: RMB65,776,000) have been pledged to secure short-term banking facilities and are therefore classified as current assets. The remaining deposits amounting to RMB473,000 (2012: RMB27,280,000) 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% (2012: 0.7% to 3%) per annum as at 31 December 2013.

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

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

	2013 RMB'000	2012 RMB'000
JPY	**16,243**	10,239
US$	**21,738**	19,891
	37,981	30,130

29. 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% (2012: 0.35%) per annum.

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

	2013 RMB'000	2012 RMB'000
US$	**39,334**	18,251
JPY	**27,790**	4,926
EUR	**856**	561
Hong Kong Dollar ("HK$")	**174**	101
SG$	**32**	36
Great Britain Pound ("GBP")	**3**	3
	68,189	23,878

30. TRADE PAYABLES

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

	2013 RMB'000	2012 RMB'000
0 – 90 days	190,087	326,709
91 – 180 days	86,605	56,744
181 – 365 days	82,322	39,144
1 – 2 years	44,304	39,451
Over 2 years	22,135	18,445
	425,453	480,493

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

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

	2013 RMB'000	2012 RMB'000
US$	34,621	62,959
JPY	–	38,720
EUR	9,791	14,321
SG$	192	297
Thai Baht ("THB")	27	–
	44,631	116,297

31. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	2013 RMB'000	2012 RMB'000
Advance from customers	117,843	149,605
Accrued payroll and welfare	54,509	73,300
Interest payable	18,225	19,137
Other deposits, payables and accruals	192,260	59,860
Other tax payable	109,261	78,016
	492,098	379,918

31. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS (CONT'D)

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

	2013 RMB'000	2012 RMB'000
US$	1,757	–
JPY	103,928	–
	105,685	–

32. BANK BORROWINGS

	2013 RMB'000	2012 RMB'000
Bank loans:		
Secured	397,387	360,514
Carrying amount repayable*:		
Within one year	397,387	350,514
More than one year but within two years	–	10,000
	397,387	360,514
Less: Amounts due within one year shown under current liabilities	(397,387)	(350,514)
Amounts shown under non-current liabilities	–	10,000

* The amounts due are based on scheduled repayment dates set out in the loan agreements. At the end of 31 December 2013 and 2012, 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:

	2013 RMB'000	2012 RMB'000
US$	61,331	32,271
EUR	13,738	5,093
	75,069	37,364

Floating interest rate borrowings were charged at the rates ranging from 2.64% to 8.63% (2012: 2.66% to 7.87%) per annum for the year ended 31 December 2013.

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

33. GUARANTEED NOTES

	2013 RMB'000	2012 RMB'000
Guaranteed notes	**1,146,863**	1,173,115

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 (the "2016 Guaranteed notes") 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 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 estimated fair value of the early redemption right is RMB3,954,000 at 31 December 2013 (2012: RMB9,573,000). The early redemption right has been recognised as embedded derivative financial asset in the consolidated statement of financial position, and a loss of RMB5,619,000 was recognised during the current year (2012: a gain of RMB9,573,000) (Note 8).

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

During the year ended 31 December 2012, the Group repurchased guaranteed notes with the aggregate principal amount of US$1,000,000 (equivalent to approximately RMB6,302,000) and a gain of approximately RMB1,295,000 (Note 8) was recognised in the profit or loss. There was no repurchase during the year ended 31 December 2013.

34. SHARE CAPITAL OF THE COMPANY

	2013 Number of shares '000 shares	2013 Amount HK'000	2012 Number of shares '000 shares	2012 Amount HK'000
Authorised:				
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

	2013 RMB'000	2012 RMB'000
Shown in the consolidated statement of financial position	**9,548**	9,548

35. RESERVES

(a) Other reserve

The Group's other reserve includes an amount of RMB47,842,000 arising on the conversion of convertible notes issued by a subsidiary, an amount of RMB(18,335,000) arising on the group reorganisation, and an amount of RMB5,159,000 generated from acquisition of additional interest in a subsidiary as disclosed in Note 39.

(b) Statutory surplus reserves

As stipulated by the relevant PRC laws and regulations, before distribution of profit each year, the subsidiaries as wholly-owned foreign enterprise with limited liability which have been 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.

(c) 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.

36. DEFERRED INCOME

	Deferred income of system sales RMB'000 (Note a)	**Arising from government grants** RMB'000 (Note b)	**Total** RMB'000
At 1 January 2012	39,462	8,800	48,262
Addition	–	33,392	33,392
Released to profit or loss	(18,213)	(1,510)	(19,723)
At 31 December 2012	21,249	40,682	61,931
Addition	–	23,607	23,607
Released to profit or loss	(21,249)	(3,462)	(24,711)
At 31 December 2013	**–**	**60,827**	**60,827**

Notes:

(a) The Company's subsidiary, Beijing Jiaoda Microunion has entered into arrangement to provide maintenance and operational services for the systems installed of up to ten years and it recognises revenue over the period during the services are provided. Service fees received in advance are recorded as deferred income and recognised as service fee income when the services are rendered.

(b) Deferred income arising from government grant represents the government subsidies obtained in relation to 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 statements of comprehensive income on a straight-line basis over the expected useful life of the relevant assets.

37. 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 maximising the return to stakeholders through the optimisation 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 and guaranteed notes disclosed in notes 32 and 33 respectively, and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the results of the review of the directors of the Company, 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.

38. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2013 RMB'000	2012 RMB'000
Financial assets		
Embedded derivative financial asset	**3,954**	9,573
Loans and receivables (including cash and cash equivalent)	**2,559,688**	2,329,131
Available-for-sale financial assets, at cost	**64,217**	64,217
Financial liabilities		
Amortised cost	**2,239,363**	2,230,941

b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivable, other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables, dividend payable, amount due to an associate, amount due to a non-controlling shareholder, bank borrowings and guaranteed notes. 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 of the Company review and agree policies for managing each of these risks and they are summarised below.

38. FINANCIAL INSTRUMENTS (CONT'D)

b) Financial risk management objectives and policies (Cont'd)

Credit risk

As at 31 December 2013, 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 recognised 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 of the Company 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 counterparties have high credit ratings. The management of the Group do not expect any counterparty to fail to meet its obligations. Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers spread across diverse geographical areas.

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	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**1,244,572**	1,264,592	**190,855**	130,033
HK$	**–**	–	**174**	101
JPY	**103,928**	42,473	**124,772**	53,491
EUR	**23,529**	19,414	**4,889**	25,627
SG$	**192**	297	**146**	36
GBP	**–**	–	**3**	3
THB	**27**	–	**–**	–
IDR	**–**	–	**2,714**	–
TOTAL	**1,372,248**	1,326,776	**323,553**	209,291

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 1% (2012: 1%) strengthening of RMB against the foreign currency list above. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 1% (2012: 1%) change in foreign currency rates.

38. FINANCIAL INSTRUMENTS (CONT'D)

b) Financial risk management objectives and policies (Cont'd)

Currency risk (Cont'd)

	2013 RMB'000	2012 RMB'000
(Decrease) increase in post-tax profit for the year		
– if RMB weakens against foreign currencies	(8,753)	(9,313)
– if RMB strengthens against foreign currencies	8,753	9,313

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate guaranteed notes disclosed in Note 33. 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 32 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 (2012: 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.

	2013	2012
Reasonably possible change in interest rate	25 basis points	25 basis points

	2013 RMB'000	2012 RMB'000
Increase (decrease) in post-tax profit for the year		
as a result of increase in interest rate	(165)	(107)
as a result of decrease in interest rate	165	107

The sensitivity analysis in interest rate does not affect other components of equity.

38. FINANCIAL INSTRUMENTS (CONT'D)

b) Financial risk management objectives and policies (Cont'd)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which had built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves, debentures and banking facilities, by continuously monitoring forecast and actual cash flows. As at 31 December 2013, the Group has available unutilised banking facilities of approximately RMB1,171,337,000 (2012: RMB923,800,000).

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 2013	Weighted average effective interest rate %	On demand and within 3 months RMB'000	3 months to 6 months RMB'000	6 months to 1 year RMB'000	1 years to 2 years RMB'000	2 years to 3 years RMB'000	3 years to 4 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade payables	–	127,958	79,347	218,148	–	–	–	425,453	425,453
Bank borrowings	5.87	180,203	97,773	126,824	–	–	–	404,800	397,387
Other payables	–	96,819	54,114	114,061	–	–	–	264,994	264,994
Amount due to a non-controlling shareholder	–	4,660	–	–	–	–	–	4,660	4,660
Dividend payable	–	6	–	–	–	–	–	6	6
Guaranteed notes	7.75	–	45,361	45,361	90,722	1,215,966	–	1,397,410	1,146,863
		409,646	276,595	504,394	90,722	1,215,966	–	2,497,323	2,239,363

At 31 December 2012	Weighted average effective interest rate %	On demand and within 3 months RMB'000	3 months to 6 months RMB'000	6 months to 1 year RMB'000	1 years to 2 years RMB'000	2 years to 3 years RMB'000	3 years to 4 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade payables	–	101,978	72,373	306,142	–	–	–	480,493	480,493
Bank borrowings	6.44	150,211	66,313	144,925	10,497	–	–	371,946	360,514
Other payables	–	89,547	42,578	20,172	–	–	–	152,297	152,297
Dividend payable	–	6	–	–	–	–	–	6	6
Amount due to an associate	–	–	–	15,000	–	–	–	15,000	15,000
Corporate bonds	5.18	–	–	52,590	–	–	–	52,590	49,516
Guaranteed notes	7.75	–	46,764	46,764	93,528	93,528	1,253,580	1,534,164	1,173,115
		341,742	228,028	585,593	104,025	93,528	1,253,580	2,606,496	2,230,941

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.

38. FINANCIAL INSTRUMENTS (CONT'D)

c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) 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 2013	At 31 December 2012			
Early redemption right classified as embedded derivative financial asset in the consolidated statement of financial position.	**Assets – RMB 3,954,000**	Assets – RMB 9,573,000	Level 3	The fair value of the embedded derivative financial asset is derived from the difference of the quoted market price of guaranteed notes extracted from Bloomberg and the fair value of the liability component of the guaranteed notes which was based on discounted cash flows using a discount rate of 6.56% as at 31 December 2013.	Discount rate of the liability component (Note)

Note: A slightly increase in the discount rate used in isolation would result in a significant decrease in the fair value measurement of the early redemption right, and vice versa. A 0.1% increase in the discount rate holding all other variables constant would decrease the carrying amount of early redemption right by RMB1,186,000.

(ii) 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 recognised in the consolidated financial statements approximate their fair values.

	31 December 2013		31 December 2012	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Guaranteed notes – liability component	**1,150,817**	**1,185,703**	1,182,688	1,142,343

The fair value of the financial liabilities included in the level 2 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.

38. FINANCIAL INSTRUMENTS (CONT'D)

c) Fair value measurements of financial instruments (Cont'd)

(iii) Reconciliation of Level 3 fair value measurements

	Embedded derivative financial asset RMB'000
At 1 January 2012	–
Changes in fair value during the year	9,573
At 31 December 2012	9,573
Changes in fair value during the year	(5,619)
At 31 December 2013	3,954

Changes in fair value are included in "other gains and losses"(Note 8).

39. ACQUISITION OF BUSINESS

On 4 May 2012, the Group acquired an additional 30% interest in Wuzhong at a cash consideration of RMB97,786,000. After the acquisition, the Group owned 80% interest in Wuzhong and the transaction has been accounted for as business combination using the acquisition method.

Wuzhong is engaged in manufacturing of industry automatic control valves. It was acquired by the Group to expand its petrochemical industry related business.

The assets and liabilities recognised at the date of acquisition are as follows:

	Fair value RMB'000
Net assets acquired:	
Property, plant and equipment (Note 16)	194,242
Prepaid lease payment (Note 17)	48,814
Deferred tax assets (Note 22)	1,718
Intangible assets – trademark (Note 18)	23,281
– patents (Note 18)	3,465
Interest in an associate	1,041
Inventories	143,253
Trade and bills receivables	179,831
Other receivables and prepayments	31,008
Bank balances and cash	6,735
Bank borrowings – due within one year	(131,600)
Trade and bills payables	(75,217)
Other payables, deposits received and accruals	(76,459)
Tax liabilities	(1,660)
Bank borrowings – due after one year	(22,500)
	325,952
Consideration transferred	97,786
Plus: Non-controlling interest (20% in Wuzhong)	65,190
Fair value of previously held interest	162,976
Less: net assets acquired	(325,952)
Goodwill arising on acquisition	–

39. ACQUISITION OF BUSINESS (CONT'D)

Acquisition-related costs relating to the above acquisition are immaterial and have been excluded from the cost of acquisitions and recognised directly as other expenses in the consolidated statement of profit or loss and other comprehensive income.

The receivables acquired (primarily comprised of trade and other receivables) with a fair value of RMB210,839,000 at the date of acquisition had gross contractual amounts of RMB222,535,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB11,696,000.

Non-controlling interests

The non-controlling interests in Wuzhong (20%) recognised at the acquisition date were measured by reference to the proportionate share of recognised amounts of net assets of Wuzhong and amounted to RMB65,190,000.

Re-measurement of previously held interest

The loss recognised as a result of re-measuring the previously held interest in Wuzhong to fair value is as follows:

	RMB'000
Fair value of previously held interest	162,976
Less: carrying amount	(176,995)
Loss on re-measurement of previously held interest (Note 8)	(14,019)

Net cash outflow arising on acquisition:

	RMB'000
Cash consideration paid	97,786
Less: Cash and cash equivalents acquired	(6,735)
Deposits for acquisition of a subsidiary	(53,782)
	37,269

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2012 is a profit of RMB45,929,000 attributable to Wuzhong. Revenue for the year ended 31 December 2012 includes RMB342,689,000 attributable to Wuzhong.

Had the acquisition of Wuzhong been completed on 1 January 2012, total group revenue for the year ended 31 December 2012 would have been approximately RMB2,319,590,000 and profit for the year ended 31 December 2012 would have been approximately RMB124,374,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2012, nor is it intended to be a projection of future results.

At 3 December 2012, the Group acquired the remaining 20% non-controlling interest in Wuzhong at a consideration of RMB65,975,000, and Wuzhong became a 100% owned subsidiary accordingly. The acquisition was accounted for as equity transaction, difference between the consideration paid and the carrying amount of non-controlling interest was recognised in equity and attributed to the owners of the Company.

40. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 25 June 2012, the Company's subsidiary, Beijing Consen Oil and Gas Engineering Co., Ltd. ("Consen Oil and Gas") entered into a strategic cooperation agreement with an independent third party, under which 1) Consen Oil and Gas will first acquire 100% equity interest in Beijing Zhongjing Shihua New Energy Technology Co., Ltd ("Zhongjing Shihua") at a cash consideration of RMB26,000,000 ("Step 1"), and 2) Consen Oil and Gas will make further capital contribution in cash to Zhongjing Shihua while the third party will transfer a full set of intellectual property rights related to biodiesel related technology to Zhongjing Shihua ("Step 2").

As at 31 December 2012, the Step 1 has been completed and Zhongjing Shihua has become a subsidiary of the Company. However, as of the acquisition date, Zhongjing Shihua has not yet commenced operation and did not meet the definition of a business under IFRS 3 "Business Combination". As such the acquisition is in substance an acquisition of assets, the transaction was accounted for as acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired are as follows:

	RMB'000
Non-current Assets	
Property, plant and equipment	7,720
Prepaid lease payments (Note 17)	24,367
Current Assets	
Inventories	151
Other receivables and prepayments	1,683
Bank balances and cash	139
Current Liabilities	
Other payables, deposits received and accruals	(7,766)
Non-controlling interest	(294)
Net assets acquired	**26,000**
Total consideration satisfied by cash	**26,000**
Net cash outflow arising on acquisition:	
Cash consideration paid	26,000
Less: cash and cash equivalents acquired	(139)
	25,861

On 22 April 2013, the Company's subsidiary, Consen Oil and Gas made further capital contribution in cash amounting to RMB4,000,000 to Zhongjing Shihua, a wholly owned subsidiary of the Group, while the third party transferred a full set of non-patented technologies to Zhongjing Shihua at a consideration of RMB35,550,000. As a result, Consen Oil and Gas's equity interest in Zhongjing Shihua was diluted to 51%.

41. DISPOSAL OF BUSINESS

On 12 August 2013, the Company's subsidiary, Beijing CAG Material & Equipment Technology Co. Ltd ("Beijing CAG") disposed its global system for mobile communications for Railways operations at consideration of RMB 25,156,000 to an independent third party.

The details of net assets disposed of were as follows:

	RMB'000
Trade receivables	15,036
Prepayments	11,465
Trade payables	5,591
Advance from customers	2,459
Net assets disposed of	18,451
Gain on disposal of business	6,705
Total consideration	25,156
Satisfied by	
Cash	7,346
Other receivables	17,810
	25,156
Net cash inflow arising on disposal:	
Cash consideration received	7,346

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 each of the reporting periods is as follows:

	2013 RMB'000	2012 RMB'000
Leasehold land and buildings	163,665	160,101
Land use rights	48,971	50,617
Trade receivables	30,000	30,000
Bills receivable	11,300	651
Pledged bank deposits	140,887	93,056
Inventories	80,004	–
	474,827	334,425

42. PLEDGE OF ASSETS (CONT'D)

The Group has pledged leasehold land and buildings with a carrying amount of approximately RMB29,292,000 (2012: RMB30,450,000) and pledged land use right with a carrying amount of approximately RMB8,001,000 (2012: RMB8,236,000) to obtain corporate guarantee from an independent third party for the banking facilities of RMB38,959,000 (2012: RMB45,000,000) granted to the Group. In addition, the Group paid approximately RMB622,000 (2012: RMB619,000) to the independent third party for the corporate guarantees provided.

43. OPERATING LEASES

The Group as lessee

	2013 RMB'000	2012 RMB'000
Minimum lease payments paid for the year under operating leases for premises	**32,149**	31,622

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:

	2013 RMB'000	2012 RMB'000
Within one year	**19,191**	31,221
In the second to fifth year inclusive	**15,258**	25,082
	34,449	56,303

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

44. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements – in respect of acquisition of leasehold land and building	**15,724**	23,503

45. SHARE-BASED PAYMENT

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.

46. 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.

47. RELATED PARTY TRANSACTIONS

(a) The Group has entered into the following significant transactions with its related parties during the reporting period:

	2013 RMB'000	2012 RMB'000
Dividend declared to non-controlling shareholders of a subsidiary	**20,650**	4,500

(b) The remuneration of key management personnel during the year was as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other benefits	**21,943**	23,351
Retirement benefit scheme contributions	**552**	604
	22,495	23,955

(c) The following balances were outstanding at the end of the reporting period:

	2013 RMB'000	2012 RMB'000
Amount due to an associate	**–**	15,000
Amount due to a non-controlling shareholder	**4,660**	–
	4,660	15,000

The above balances are unsecured interest-free and repayable on demand.

48. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2013 RMB'000	2012 RMB'000
Non-current assets		
Investment in subsidiaries	346,126	369,918
Amounts due from subsidiaries	912,922	980,206
Property, plant and equipment	5	12
Embedded derivative financial asset	3,954	9,573
	1,263,007	1,359,709
Current asset		
Other receivables and prepayments	331	341
Dividends receivables	242,631	213,469
Amounts due from subsidiaries	382,938	335,155
Bank balances and cash	2,186	4,728
	628,086	553,693
Current liabilities		
Other payables and accruals	18,255	18,949
Amounts due to subsidiaries	6,085	6,125
Dividend payable	6	6
Bank borrowings-due within one year	30,583	–
	54,929	25,080
Net current assets	573,157	528,613
	1,836,164	1,888,322
Capital and reserves		
Share capital	9,548	9,548
Share premium and reserves	679,753	705,659
Total equity	689,301	715,207
Non-current liabilities		
Guaranteed notes	1,146,863	1,173,115
	1,836,164	1,888,322

48. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONT'D)

Movement in capital and reserves

	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total Equity RMB'000
At 1 January 2012	9,548	648,367	6,713	(2,088)	662,540
Profit and total comprehensive income for the year	–	–	–	77,627	77,627
Dividend distributed	–	–	–	(24,960)	(24,960)
Effects of lapse of share options	–	–	(6,713)	6,713	–
At 31 December 2012	9,548	648,367	–	57,292	715,207
Loss and total comprehensive loss for the year	–	–	–	(5,458)	(5,458)
Dividend distributed	–	–	–	(20,448)	(20,448)
At 31 December 2013	9,548	648,367	–	31,386	689,301

49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY

49.1 General information of subsidiaries

Details of the Company's subsidiaries at 31 December 2013 and 2012 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 2013 %	2012 %	Principal activities
Tricon International Group Inc.	BVI	Ordinary shares US$1	100	100	Investment holding
Trisen International Limited	BVI	Ordinary shares US$5,000	100	100	Investment holding
Cowin Global	BVI	Ordinary shares US$1	100	100	Investment holding
Inovex Corporation	USA	Ordinary shares US$1	100	100	Business development and provision of engineering services in overseas markets
Tri-sen Systems Corporation	USA	Ordinary shares US$1	100	100	Business development and provision of turbo machinery controls to the process industries
日本イノベックス株式会社 Inovex Japan Corporation	Japan	Ordinary shares JPY10,000,000	100	100	Business development and provision of control equipment
Trisen Asia Control Pte.Ltd	Singapore	Ordinary shares S$1,500,000	70	70	Distribution, training and engineering of instrumentation and control products
Consen Automation (Singapore) Pte. Ltd.	Singapore	Ordinary shares S$1,000,000	100	100	Overseas business development and provision of engineering services

49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY (CONT'D)

49.1 General information of subsidiaries (Cont'd)

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 2013 %	2012 %	Principal activities
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 RMB20,000,000	**100**	100	Design, development and sales of railway interlocking system
北京創康自動化工程有限公司 Beijing Tri-Control Automation Co., Ltd. (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
北京交大微聯科技有限公司 Beijing Jiaoda Microunion (Note i)	PRC	Registered capital RMB100,000,000	**76.7**	76.7	Design, development and sales of railway interlocking system
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
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 service
北京康吉森油气工程技術有限公司 Consen Oil and Gas (Note i)	PRC	Registered capital RMB50,000,000	**100**	100	Trading of equipment of safety and critical control systems as well as technology service
北京恒優聯科技有限公司 Beijing Heng Youlian Technology Company Limited (Note i)	PRC	Registered capital RMB20,000,000	**100**	100	Imports and exports of goods and technology as well as an agent of imports and exports
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
北京中自化物資装備技術有限公司 Beijing CAG (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
北京上方雲水軟件技術有限公司 Beijing Shang Fang (Note i)	PRC	Registered capital RMB10,000,000	**100**	100	Software development and integrated circuit design
北京海淀中京工程設計軟件技術有限公司 ("Beijing Zhongjing") (Note i)	PRC	Registered capital RMB50,000,000	**70**	70	Engineering design

49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY (CONT'D)

49.1 General information of subsidiaries (Cont'd)

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 2013 %	2012 %	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, sale and installation of electrified equipment for the railway rolling stock and locomotive industries
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, sale and installation of electrified equipment for the railway rolling stock and locomotive industries
Tri-Control Automation Co., Ltd	Hong Kong	Ordinary shares HK$10,000,000	**100**	100	Trading of automation products
Consen International (Hong Kong) Ltd ("Consen International")	Hong Kong	Ordinary shares HK$20,000,000	**100**	100	Trading of automation products
吳忠儀錶有限責任公司 Wu Zhong (Note i)	PRC	Registered capital RMB320,000,000	**100**	100	Manufacture of industry automatic control valves
北京恒泰日新軟件技術有限公司 Beijing Heng Tai (Note i)	PRC	Registered capital RMB10,000,000	**100**	100	Software development and integrated circuit design
北京中京實華新能源科技有限公司 Zhongjing Shihua (Note i and iii)	PRC	Registered capital RMB72,550,000	**51**	100	Engineering design
北京中京征和環保服務有限公司 Beijing Zhongjing Zhenghe Environmental Services Ltd (Note i)	PRC	Registered capital RMB10,000,000	**97**	97	Engineering design
寧夏朗盛精密製造技術有限公司 Ningxia Langsheng Foundry Co., Ltd (Note i)	PRC	Registered capital RMB33,030,000	**100**	100	Manufacture of steel-casting
寧夏吳忠儀錶上海有限公司 Wuzhong Instrument (Shanghai) Co. Ltd (Note i)	PRC	Registered capital RMB10,000,000	**100**	100	Manufacture of industry automatic control valves
北京吳忠儀錶銷售有限公司 Wuzhong Sales (Beijing) Co. Ltd (Note i)	PRC	Registered capital RMB10,000,000	**100**	100	Sales of industry automatic control valves
寧夏菲麥森流程控制技術有限公司 Ningxia Feimaisen (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) Co. Ltd (Note i)	PRC	Registered capital RMB20,000,000	**100**	100	Provision of engineering services

Notes:

(i) The English names of these companies are for reference only and have not been registered.

(ii) These subsidiaries are registered as wholly foreign-owned enterprise under PRC law.

(iii) Changed in ownership during the year ended 31 December 2013(Note 40).

49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY (CONT'D)

49.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

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	
		2013	2012	**2013**	2012	**2013**	2012
Beijing Jiaoda Microunion	Beijing	**23.3%**	23.3%	**9,720**	631	**142,390**	144,320
Individually immaterial subsidiaries with non-controlling interests						**198,940**	170,735
						341,330	315,055

Summarised financial information is respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Beijing Jiaoda Microunion

	2013 RMB'000	2012 RMB'000
Current assets	**525,141**	625,021
Non-current assets	**349,129**	338,478
Current liabilities	**(223,665)**	(233,852)
Non-current liabilities	**(39,487)**	(110,248)

	2013 RMB'000	2012 RMB'000
Revenue	**319,780**	296,553
Expenses	**(278,062)**	(293,843)
Profit for the year	**41,718**	2,710
– Profit attributable to owners of the Company	**31,998**	2,079
– Profit attributable to the non-controlling interests	**9,720**	631
Total comprehensive income for the year	**41,718**	2,710
– Total comprehensive income attributable to owners of the Company	**31,998**	2,079
– Total comprehensive income attributable to the non-controlling interests	**9,720**	631
Dividends paid to non-controlling interests	**11,650**	-
Net cash inflow from operating activities	**154,801**	54,033
Net cash (outflow) inflow from investing activities	**(13,586)**	6,657
Net cash (outflow) from financing activities	**(132,902)**	(85,674)
Net cash inflow (outflow)	**8,313**	(24,984)

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
Revenue	1,125,435	1,594,828	1,981,015	2,210,754	**2,308,801**
Profit before tax	264,515	362,248	296,804	162,753	**122,287**
Income tax (expense) credit	(20,749)	(41,802)	(53,156)	(34,341)	**(37,338)**
Profit attributable to equity holder of the parent	212,088	285,581	195,774	84,583	**73,574**

ASSETS AND LIABILITIES

	At 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
Non-current assets	490,257	667,252	1,087,111	1,252,288	**1,324,431**
Current assets	1,588,636	2,064,853	2,967,562	3,424,335	**3,453,309**
Current liabilities	(538,305)	(692,784)	(744,844)	(1,298,132)	**(1,345,108)**
Net current assets	1,050,331	1,372,069	2,222,718	2,126,203	**2,108,201**
Total assets less current liabilities	1,540,588	2,039,321	3,309,829	3,378,491	**3,432,632**

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

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

Independent Non-executive Directors:

Mr. Wang Tai Wen
Mr. Sui Yong Bin
Mr. Ng Wing Fai

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

Mr. Ng Wing Fai (Chairman)
Mr. Wang Tai Wen
Mr. Sui Yong Bin

REMUNERATION COMMITTEE

Mr. Wang Tai Wen (Chairman)
Mr. Sui Yong Bin
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Huang Zhi Yong

NOMINATION COMMITTEE

Mr. Sui Yong Bin (Chairman)
Mr. Wang Tai Wen
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Kuang Jian Ping

SENIOR MANAGEMENT

Mr. Cui Da Chao
Mr. Wang Wen Hui
Mr. Zhou Zheng Qiang
Mr. Li Hai Tao
Mr. Duan Min
Mr. Chen Yong
Mr. Ma Yu Shan
Mr. Li Guang Lei
Mr. Tian Lei
Ms Wang Yan Mei
Mr. Wang Jing Hua
Mr. William Erik Barkovitz
Mr. Chow Chiu Chi

STOCK CODE

Hong Kong Stock Exchange 569

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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PRINCIPAL BANKERS

Hong Kong:
CITIC Bank International Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank Limited

PRC:
Agricultural Bank of China
Bank of Beijing
Bank of Communications
China Construction Bank
China Merchants Bank
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank
China Guangfa Bank
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

Deloitte Touche Tohmatsu Certified Public Accountants

LEGAL ADVISERS

As to Hong Kong law
Woo, Kwan, Lee & Lo
As to Cayman Islands law
Conyers Dill & Pearman
As to PRC law
Commerce & Finance Law Offices