中國自動化

中國自動化集團有限公司
China Automation Group Limited

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

Apply Tomorrow's Technology
Safeguard Security **Today**

2015
Annual Report

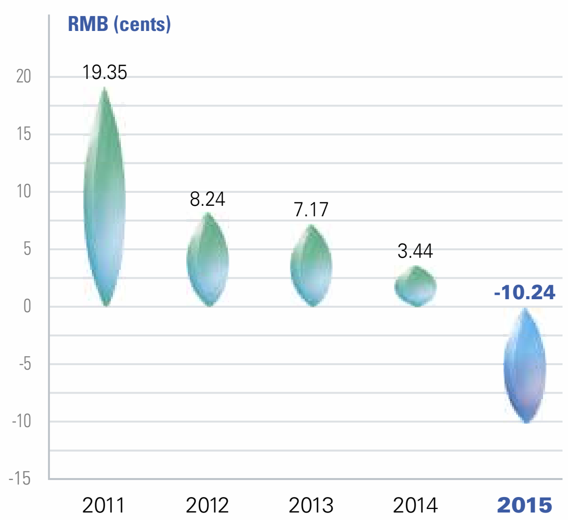
CONTENTS

COMPANY **PROFILE**

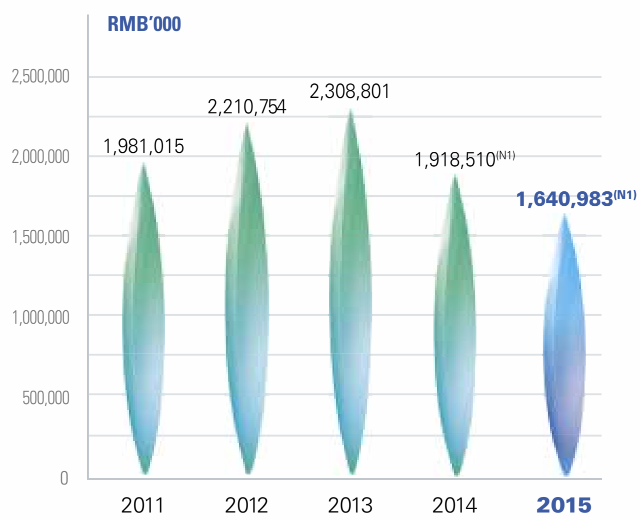
China Automation Group Limited (the "Company") was established in 1999 and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2007. The Company and its subsidiaries (collectively referred to as the "Group") specialize in providing safety and critical control systems, control valves, 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, 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 three 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

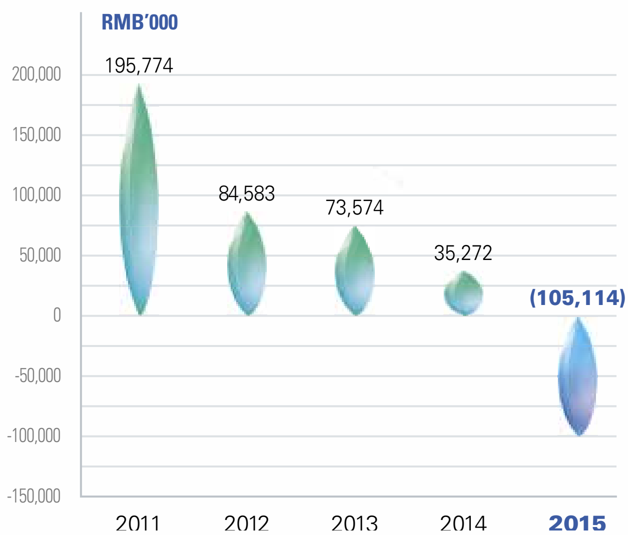


(N1): excluding the discontinued operations

	2015 RMB'000	2014 RMB'000	Change (%)
Turnover (N1)	**1,640,983**	1,918,510	-14.5
(Loss) Profit attributable to equity holders of the company	**(105,114)**	35,272	-398.0
(Loss) Earnings per share			
– basic	**(RMB10.24 cents)**	RMB3.44 cents	-398.0
– diluted	**(RMB10.24 cents)**	RMB3.44 cents	-398.0
Dividend per share	**Nil**	Nil	–

(N1): excluding the discontinued operations

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 Group for the year ended 31 December 2015.

During the year under review, the sustained sluggishness in the economy in China and the deep declines in oil prices dampened demand from the petrochemical and coal chemical industries. Meanwhile, the operating environment for the railway industry in China due to improved the merger between the two top rolling stock manufacturers in China, CSR and CNR.

As 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 qualified suppliers of traction and auxiliary power supply systems in the railway industry in China, the Group is committed to offering comprehensive and reliable products and services to the industries in which it operates.

During the year under review, the Group continued to undertake various measures to streamline and enhance its operations. The Group implemented a stringent budgetary planning and control system and cost-control measures with an aim to lower its sales and marketing costs as well as operational costs. The Group also rolled out an internal restructuring programme that saw scaling back of the non-profit making business units; retrenching redundant staff so as to enhance the Group's overall operational efficiency and to maintain its competitiveness. The overall performance of the Group remained in line with management expectations.

For the year ended 31 December 2015, revenue of the Group from continuing operations decreased by 14.5% to RMB1,641.0 million from RMB1,918.5 million in 2014. Revenue generated from petrochemical segment shrank 10.7% to RMB1,450.2 million from RMB1,624.6 million in 2014. Revenue generated from railway segment declined significantly by 35.1% to RMB190.8 million from RMB293.9 million in 2014.

The Group recorded profit from discontinued operations amounting to RMB217.3 million for the period from 1 January 2015 to 26 May 2015 (2014: RMB35.9 million), of which the profit attributable to owners of the Company amounted to RMB213.7 million (2014: RMB27.6 million). The gain on disposal of discontinued operations was related to the disposal of a 76.7% equity interest in Beijing Jiaoda Microunion Technology Company Limited ("Beijing Jiaoda Microunion").

The Group recorded loss attributable to shareholders amounting to RMB105.1 million for the year ended 31 December 2015 (2014: Profit of RMB35.3 million).

Loss per share (including both continuing and discontinued operations) for the year ended 31 December 2015 was RMB10.24 cents (2014: earnings per share at RMB3.44 cents). The Board has resolved not to recommend distribution of a final dividend (2014: Nil) in respect of the year.

FOCUSED ON PROFITABILITY AND OPERATING CASHFLOW

In 2015, the Group continued to undertake various measures to streamline and enhance its operations. The Group implemented a stringent budgetary planning and control system and cost-control measures with an aim to lower its sales and marketing costs as well as operational costs.

The Group also rolled out an internal restructuring programme that saw scaling back of the non-profit making business units; retrenching redundant staff so as to enhance its overall operational efficiency and to maintain its competitiveness.

The Group has been engaging in provision of safety and critical control systems for the petrochemical industry since 1999. In 2015, the Group's safety and critical control related business experienced a correction in scale. Yet it still maintained its leading position in the market against a backdrop of weak economic growth in China and the deep declines in oil prices that had dampened demand from petrochemical and coal chemical industries. The Group continued to secure large-scale projects in 2015 from renowned petrochemical and coal-chemical related companies, including China Petrochemical Corporation, China National Petroleum Corporation, China Shenhua Energy Company Limited and China National Coal Group Corporation.

With persistent efforts in research and development, production, sales and marketing, and internal operation, the Group's control valve business achieved moderate organic growth in 2015. The Group's unparalleled capability in provision of engineering and maintenance services constitutes a core competitive advantage in its control valve business. Leveraging years of experiences in this area, the Group's control valve engineering and maintenance services team can undertake plant-wide control valve engineering and maintenance services projects for both its own products and the products supplied by other corporations, including first-tier multi-national corporations.

The Group continued to invest in research and development. In 2015, the Group made breakthroughs in developing and manufacturing high-end control valves. The Group expanded its product range and developed control valves specifically for use in different sectors, such as the valve for oil and gas pipelines, high-temperature and high-pressure differential valves for the nuclear power industry and deep water valves for ocean drilling platforms. In particular, the Group developed, for the first time in the nuclear power industry in China, a high-temperature, high-pressure ball valve with flow control function. The development of this ball valve filled the vacuum in the country's prevailing proprietarily-developed high-temperature, high-pressure and large-diameter ball valve offerings, none of which feature flow control function. It also marked a new milestone development for the Group's valve business, thus helped the Group explore more market opportunities for large-diameter and special-usage valves.

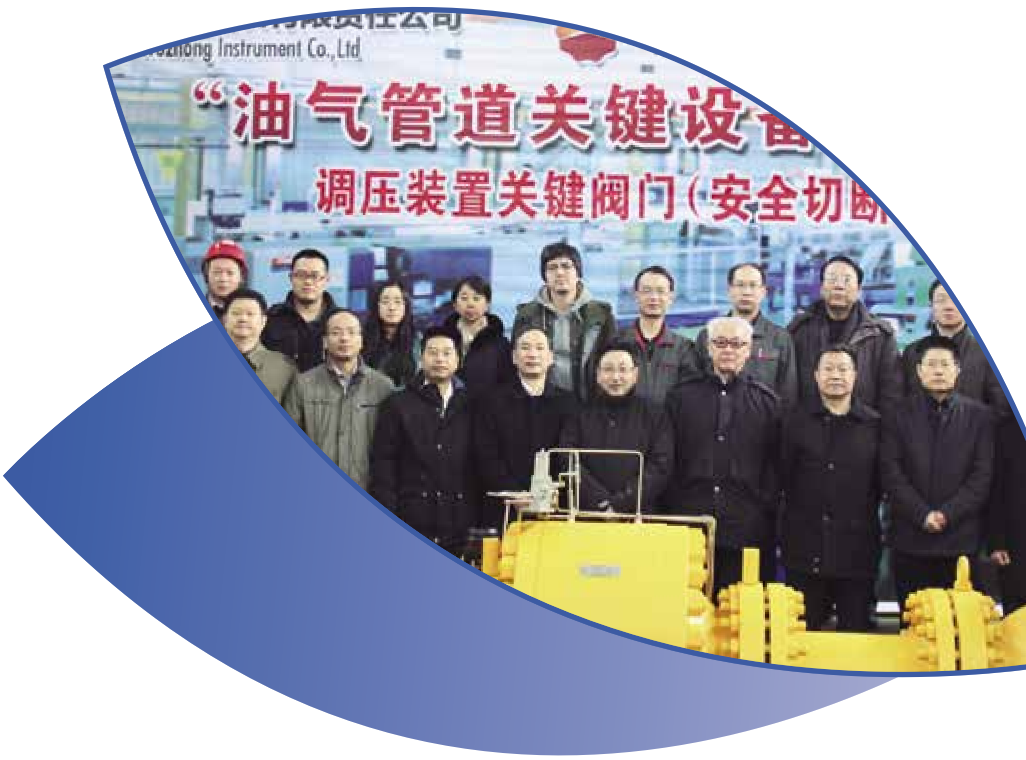
OPTIMISING PRODUCT MIX AND TAPPING OPPORTUNITIES FROM LOCALISATION

According to statistics released by China Railway Corporation, ("CRC", formerly The Ministry of Railways) in 2015, national railway fixed asset investments amounted to RMB823.8 billion, and the new lines put into use amounted to 9,531 kilometers, of which high-speed railway accounted for 3,306 kilometers. The operating environment for the railway industry continued improved in 2015.

On 23 March 2015, the Group signed an agreement to dispose 76.7% equity interest in Beijing Jiaoda Microunion at a cash consideration of RMB811.65 million. This transaction represented a good chance for the Group to realize its long-term investment in Beijing Jiaoda Microunion. The transaction was completed on 26 May 2015, being the date of changing of business registration. The gain on the disposal amounted to RMB201.9 million, after deduction of the direct related expenses and the effect on income tax charged.

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. In 2015, delivery of traction systems for Nanjing Subway Line Number 1 was completed but delivery of traction systems for Guangzhou Subway Line Number 9 was only partially made in accordance with the delayed schedule. With a track record established to include these two projects, the Group will enjoy an advantageous position in tapping vast opportunities in the metro market in the future.

Revenue from the railway traction systems and auxiliary power supply related equipment segment declined by 19.0% to RMB161.9 million in 2015 (2014: RMB199.8 million), as a result of the merger between the two top rolling stock manufacturers in China, CSR and CNR. The Group continued to develop its proprietary products to explore opportunities in new markets. The Group continued to develop localized proprietary traction systems for urban rail transit. In addition, the Group applied its proprietary traction systems for trams in Dalian.



PROSPECTS AND OUTLOOK

Looking ahead, the development of the petrochemical and coal chemical industries still face serious challenges as global oil prices continue to be in doldrums in the medium term, dampening demand for the industry.

Both the petrochemical and coal chemical industries will continue to see deepened localization of critical equipment. The Group will continue its efforts in research and development to develop high-end and diversified control valves. Working in parallel, the Group will sustain its efforts in extending the applications of its safety control systems to upstream oil and gas fields as well as to other industries, in particular industry related to energy efficiency and environment protection. Meanwhile, the Group will seek to increase the revenue contribution from its recurring engineering and maintenance services by its enhanced service teams and through provision of more value-added services.

As far as the railway sector is concerned, the Central Government has reaffirmed its intention to maintain the scale of fixed asset investments in railways in China, targeting at developing railways the central and western regions to drive economic development and improvements in people's livelihood. China also seeks to deepen reforms in investments and financing for the railway sector to attract investments in railways from local governments and social enterprises. The investments in the railway industry should remain over RMB800 billion in 2016. Exports of railway technology to overseas markets will continue to be accelerated, targeting at achieving breakthroughs to take the competitiveness of China's railway industry to the next level.

The outlook for urban rail transit in China will continue to be promising. The total investment in urban rail transit in 2015 was about RMB300 billion. A Total of 68 urban rail transit projects will be launched during 2015 and 2017, according to the announcement of NDRC on 30 June 2015. The number of cities which meet the standards for metro projects will increase from 39 to 50 in the year of 2020.

The total value of the approved urban rail transit projects in 2015 amounted to RMB1 trillion. Urbanization rate is estimated to reach 60%, and the number of cities with population of over 1 million will reach 200 in 2020.

The Group aims to maintain its leading position in provision of a wide array of products for the petrochemical, the railway, and other industries. It strives to reinforce its leading position in the petrochemical and railway industries. It seeks to enhance its overall competitiveness further by expanding its product portfolio through more research and development efforts. The Group endeavors to develop proprietary control valve and traction systems to capture the opportunity of localization of industrial products in China.

The Group will stay focused on the petrochemical and railway industries, while actively explore opportunities for application of existing products in other industries.

With regard to financial strategy, the Group strives to lower its leverage level so as to save its finance costs.

As far as the petrochemical industry is concerned, the Group will endeavor persistent efforts in high-end control valve research and development to capture the vast opportunities in the localization of industrial products in China. It will further enhance Wuzhong Instrument's overall capability in research and development, sales and marketing, production, as well as internal operation. The Group will extend the applications of safety control systems to the upstream oil and gas field as well as metallurgical, power and other industries. It seeks to increase the revenue contribution from engineering and maintenance services by enhancing after-sale service team and value-added services.

As for the railway business, the Group will enhance research and development for traction and auxiliary related products applied for electromotive unit ("EMU"). It will strive gain more market share in urban rail transit for traction systems.

Leveraging its unique competencies, distinguished development strategies and experienced professional management team, the Group will continue to maximize returns for our shareholders and achieve remarkable results.

Xuan Ruiguo
Chairman

Hong Kong
24 March 2016

OPERATION AND BUSINESS REVIEW

In 2015, the Group maintained a leading position in its three core businesses among the two major industries of petrochemicals and railway 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 qualified suppliers of traction and auxiliary power supply systems in the railway industry in China.

In 2015, the Group continued to undertake various measures to streamline and enhance its operations. The Group implemented a stringent budgetary planning and control system and cost-control measures with an aim to lower its sales and marketing costs as well as operational costs. The Group also rolled out an internal restructuring programme that saw scaling back of the non-profit making business units; retrenching redundant staff so as to enhance the Group's overall operational efficiency and to maintain its competitiveness.

PETROCHEMICAL INDUSTRY

In 2015, the Group's safety and critical control related business experienced a correction in scale. Yet it still maintained its leading position in the market against a backdrop of weak economic growth in China and the deep corrections in oil prices that had dampened demand from petrochemical and coal chemical industries. As at 31 December 2015, the Group successfully completed and delivered approximately 421 sets of systems, bringing the cumulative delivered system count to approximately 3,722 sets. The Group continued to secure large-scale projects in 2015 from renowned petrochemical and coal-chemical related companies, including 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 2015 from these corporations. Moreover, the Group has upgraded its self-developed proprietary products namely, iMEC, iSOM and OTS systems, providing energy-saving and more complete solutions for turbine and compressor control systems.

With persistent efforts in research and development, production, sales and marketing and internal operation, the Group's control valve business achieved moderate organic growth in 2015. The Group's unparalleled capability in provision of engineering and maintenance services constitutes a core competitive advantage in its control valve business. Leveraging years of experiences in this area, the Group's control valve engineering and maintenance services team can undertake plant-wide control valve engineering and maintenance services projects for both its own products and the products supplied by other corporations, including first-tier multi-national corporations. In 2015, the Group won two contracts in provision of long-term plant-wide maintenance services for Shenhua Ningmei indirect liquefaction project and ChinaCoal Erdos chemical project. Winning of these contracts reinforced the Group's strategy of developing after-sale services. Not only had the maintenance services made significant contribution to the Group's overall profit, they also helped secure new orders in connection with replacement of control valves manufactured by other producers.

The Group continued to invest in research and development. In 2015, the Group made breakthroughs in developing and manufacturing high-end control valves. The Group expanded its product range and developed control valves specifically for use in different sectors, such as the valve for oil and gas pipelines, high-temperature and high-pressure differential valves for the nuclear power industry and deep water valves for ocean drilling platforms. In particular, the Group developed, for the first time in the nuclear power industry in China, a high-temperature, high-pressure ball valve with flow control function. The development of this ball valve filled the vacuum in the country's prevailing proprietarily-developed high-temperature, high-pressure and large-diameter ball valve offerings, none of which feature flow control function. It also marked a new milestone development for the Group's valve business, thus helped the Group explore more market opportunities for large-diameter and special-usage valves.

RAILWAY INDUSTRY

The Group's traction and auxiliary power supply system related business experienced a correction in scale as a result of the merger between the two top rolling stock manufacturers in China, CSR and CNR. The Group continued to develop its proprietary products to explore opportunities in new markets. The Group continued to develop localized proprietary traction systems for urban rail transit. In addition, the Group applied its proprietary traction systems for trams in Dalian.

In 2015, all rolling stocks for Nanjing Subway Line Number 1 traction system projects undertaken by the Group as a general contractor were completely delivered as scheduled whereas the delivery of rolling stocks for Guangzhou Subway Line Number 9 experienced some delay in accordance with the latest schedule. With a track record established of these two projects, the Group will enjoy an advantageous position in tapping vast opportunities in the metro market in the future.

FINANCIAL REVIEW

CONTINUING OPERATIONS

REVENUE

For the year ended 31 December 2015, revenue of the Group decreased by 14.5% to RMB1,641.0 million (2014: RMB1,918.5 million).

Revenue generated from the petrochemical segment shrank 10.7% to RMB1,450.2 million (2014: RMB1,624.6 million), whereas revenue generated from the railway segment decreased significantly by 35.1% to RMB190.8 million (2014: RMB293.9 million) for the year ended 31 December 2015.

TURNOVER ANALYSIS BY OPERATING SEGMENT

	For the year ended 31 December				
	2015		2014		Change
	(RMB' million)	**%**	(RMB' million)	%	(%)
Petrochemical	**1,450.2**	**88.4**	1,624.6	84.7	-10.7
Railway	**190.8**	**11.6**	293.9	15.3	-35.1
	1,641.0	**100.0**	1,918.5	100.0	-14.5

TURNOVER ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

	For the year ended 31 December				
	2015		2014		Change
	(RMB' million)	**Proportion (%)**	(RMB' million)	Proportion (%)	(%)
System sales and					
Engineering design services					
– Petrochemical					
– safety systems	**548.1**	**33.4**	769.4	40.1	-28.8
– control valves (Note)	**700.6**	**42.7**	671.7	35.0	+4.3
– Railway					
– Traction systems and others	**183.1**	**11.1**	212.3	11.1	-13.8
Sub-total	**1,431.8**	**87.2**	1,653.4	86.2	-13.4
Provision of engineering and maintenance services	**183.5**	**11.2**	185.2	9.7	-0.9
Distribution of equipment	**25.7**	**1.6**	79.9	4.1	-67.8
Total	**1,641.0**	**100.0**	1,918.5	100.0	-14.5

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 2015, revenue generated from system sales and engineering design services in relation to the petrochemical industries decreased by 28.8% to RMB548.1 million (2014: RMB769.4 million). The decrease was mainly due to slower overall demand stemming from slowdown in the overall economy in China and declines in crude oil price.

CONTROL VALVE

The Group's control valve business delivered satisfactory results and contributed RMB700.6 million (2014: RMB671.7 million) to the Group's revenue for the year ended 31 December 2015. The control valve business achieved modest organic growth. Thanks to the contribution from Shenhua Ningmei indirect coal liquefaction project which accounted for more than 40% revenue for this business segment. Wuzhong Instrument is now the largest domestic manufacturer of control valves in China.

SYSTEM SALES TO RAILWAY INDUSTRIES

TRACTION SYSTEM AND OTHERS

Revenue generated from system sales in relation to traction system shrank by 13.8% to RMB183.1 million (2014: RMB212.3 million). This was resulted from slowdown in tendering of rolling stock projects by CRC following the merger of CSR Corporation Limited and CNR Corporation Limited but was partially offset by the full delivery of rolling stocks for Nanjing Subway Line Number 1 and the partial delivery of rolling stocks for Guangzhou Subway Line Number 9 in the second half of 2015.

PROVISION OF ENGINEERING AND MAINTENANCE SERVICES

For the year ended 31 December 2015, revenue generated from provision of engineering and maintenance services decreased by 0.9% to RMB183.5 million (2014: RMB185.2 million). However, this business is becoming more and more important as its percentage contribution versus its related safety and critical control system has been increasing over the past years.

DISTRIBUTION OF EQUIPMENT

For the year ended 31 December 2015, revenue in relation to equipment distribution shrank significantly by 67.8% to RMB25.7million (2014: RMB79.9 million).

In terms of types of goods and services rendered, 87.2% (2014: 86.2%) of the Group's revenue was generated from system sales, 11.2% (2014: 9.7%) from the provision of engineering and maintenance services and 1.6% (2014: 4.1%) from equipment distribution.

In addition, in terms of operating segment, 88.4% (2014: 84.7%) of the Group's revenue was generated from the petrochemical segment and 11.6% (2014: 15.3%) from the railway segment.

GROSS PROFIT

Gross profit for the year ended 31 December 2015 amounted to RMB497.8 million (2014: RMB620.9 million), representing a decrease of RMB123.1 million or 19.8% over the previous year.

The overall gross profit margin for the year ended 31 December 2015 decreased by 2.1% points to 30.3% (2014: 32.4%).

GROSS PROFIT ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

	For the year ended 31 December		
	2015 (%)	2014 (%)	Change (% Point)
System sales and Engineering design services			
– Petrochemical			
– safety system	**27.8**	30.1	-2.3
– control valve	**28.7**	29.4	-0.7
– Railway			
– Traction system and others	**23.4**	24.7	-1.3
Sub-total	**27.7**	29.1	-1.4
Provision of engineering and maintenance services	**51.4**	56.1	-4.7
Distribution of equipment	**28.0**	44.2	-16.2
Total	**30.3**	32.4	-2.1

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 by 2.3% points to 27.8% (2014: 30.1%) mainly due to a lower output level and hence weaker economy of scales.

GROSS PROFIT MARGIN OF CONTROL VALVE

The gross profit margin decreased by 0.7% points to 28.7% (2014: 29.4%) due to keen price competition in the market.

GROSS PROFIT MARGIN OF SYSTEM SALES IN RELATION TO RAILWAY INDUSTRIES

GROSS PROFIT MARGIN OF TRACTION SYSTEM AND OTHERS

The gross profit margin narrowed by 1.3% points to 23.4% (2014: 24.7%) due to the delivery of traction systems in relation to Nanjing Subway Line Number 1 which has been a low margin project intended for track record building purposes.

GROSS PROFIT MARGIN OF THE PROVISION OF ENGINEERING AND MAINTENANCE SERVICES

The gross profit margin of the provision of engineering and maintenance services decreased by 4.7% points to 51.4% (2014: 56.1%).

GROSS PROFIT MARGIN OF DISTRIBUTION OF EQUIPMENT

For the year ended 31 December 2015, the gross profit margin of the equipment distribution business decreased significantly by 16.2% points to 28.0% (2014: 44.2%).

OTHER INCOME

For the year ended 31 December 2015, other income decreased by RMB5.4 million to RMB38.3 million (2014: RMB43.7 million). This was primarily due to lower VAT refund.

OTHER LOSSES

For the year ended 31 December 2015, other losses amounted to RMB349.1 million (2014: other losses of RMB47.0million). This was mainly attributable to: (i) a significant increase in the allowance for bad and doubtful debts to RMB124.5 million for the year ended 31 December 2015 (2014: RMB30.8 million) against those accounts receivables aged over two years, which recoverability is uncertain; (ii) significant impairment losses against the goodwill of RMB60.1 million and intangible assets namely licenses, development expenditures as well as certain non-patented technologies of RMB119.1 million in light of the slowing businesses related mainly to traction system and industrial railway signalling businesses against a backdrop of the overall slowdown in the economy in China; (iii) a RMB14.8 million loss from early redemption of the Company's guaranteed notes; and (iv) a RMB30.4 million exchange loss arising from the devaluation of Renminbi versus US dollar and other currencies.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the year ended 31 December 2015 decreased by 9.0% to RMB147.7 million (2014: RMB162.2 million). Such decrease was mainly attributable to: (i) lower entertainment and travelling expenses; and (ii) savings on office expenses.

Selling and distribution expenses as a percentage of the Group's full year revenue was 9.0% (2014: 8.5%).

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2015 amounted to RMB219.5 million (2014: RMB201.5 million), representing an increase of 8.9% year-on-year. Such increase was mainly attributable to: (i) an increase in consultancy fees in relation to taxation, group reorganisation and corporate governance matters; (ii) an increase in depreciation charges in relation to a new plant for traction system production; and (iii) property tax paid for the new plant for traction system production.

Administrative expenses as a percentage of the Group's full year revenue was 13.4% (2014: 10.5%).

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the year ended 31 December 2015 were RMB76.1 million (2014: RMB84.0 million). The research and development projects undertaken were mainly related to development of high-end control valves in response to the preferential policies regarding localization enacted by the Chinese Government; turbine machinery control system business for the upstream oil and gas pipeline as well as the traction systems and auxiliary electricity supply related products for trams.

FINANCE COSTS

Finance costs for the year ended 31 December 2015 decreased by 27.9% to RMB94.0 million (2014: RMB130.3 million). Such decrease was primarily due to the early redemption of the 2016 Guaranteed Notes with an outstanding principle amount of US$126.4 million (equivalent to approximately RMB785.6 million) during the year.

INCOME TAX EXPENSES

Income tax expenses for the year ended 31 December 2015 lowered to RMB12.2 million (2014: RMB27.9 million), which was down 56.3% as compared with that of the previous year.

(LOSS) PROFIT FOR THE YEAR

As a result of the foregoing, the Group recorded RMB363.5 million in loss for the year ended 31 December 2015 (2014: profit attributable to equity holders of RMB10.8 million).

DISCONTINUED OPERATIONS

The Group recorded profit from discontinued operations amounting to RMB217.3 million for the period from 1 January 2015 to 26 May 2015 (2014: RMB35.9 million), of which the profit attributable to owners of the Company amounted to RMB213.7 million.

The gain on disposal of discontinued operations was related to the disposal of a 76.7% equity interest in Beijing Jiaoda Microunion. On 23 March 2015, an indirect wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement with independent parties for the dispose of a 76.7% equity interest in Beijing Jiaoda Microunion at a cash consideration of RMB811.65 million. The transaction was completed on 26 May 2015, being the date of changing business registration. The Directors believe that the consideration of RMB811.65 million is a satisfactory selling price and the transaction represents a good opportunity for the Group to realize its long-term investment in Beijing Jiaoda Microunion, given the fact that the historical cost of acquiring the 76.7% equity interest in Beijing Jiaoda Microunion amounted to merely approximately RMB303.5 million; and that the Group had already received dividend payments aggregating approximately RMB168.7 million since its acquisition in 2008 and up to the date of completion. Based on the financial information of Beijing Jiaoda Microunion as at the date of disposal, the gain on the disposal amounted to approximately RMB201.9 million after deduction of the direct related expenses and the effect on income tax charged to the gain on the disposal.

(LOSS) PROFIT FOR THE PERIOD (FROM CONTINUING AND DISCONTINUED OPERATIONS)

The Group recorded loss amounting to RMB146.3 million for the year ended 31 December 2015 (2014: Profit of RMB46.7 million).

(LOSS) EARNINGS PER SHARE

Loss per share (including both continuing and discontinued operations) for the year ended 31 December 2015 was RMB10.24 cents (2014: earnings per share at RMB3.44 cents).

DIVIDEND

The Board has resolved not to recommend distribution of a final dividend (2014: Nil) 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 for the year ended 31 December 2015 amounted to RMB98.3 million (2014: RMB205.1 million). This was mainly attributable to a higher level of other receivables as well as a lower level of increase in trade payables.

Net cash generated from investing activities of the Group for the year ended 31 December 2015 amounted to RMB613.2 million (2014: net cash used in investing activities amounted to RMB87.2 million). This major turnaround was due to the net proceeds of RMB765.4 million received from the disposal of a 76.7% equity interest in Beijing Jiaoda Microunion in May 2015.

Net cash used in financing activities for the year ended 31 December 2015 increased by RMB331.0 million to RMB507.6 million (2014: RMB176.6 million). This was mainly attributable to early redemption of the 2016 Guaranteed Notes (including an early redemption premium) amounted to RMB800.4 million. The major financing activity for the year ended 31 December 2015 was related to an issuance of the 8.75% 2018 Guaranteed Notes with the principal amount of US$30 million by the Company's subsidiary Tri-control on 11 December 2015.

As at 31 December 2015, cash and bank balances (including pledged bank deposits) amounted to RMB679.5 million (31 December 2014: RMB514.1 million).

GEARING POSITION

The net gearing (total borrowings less cash over equity) ratio was at 25.0% as at 31 December 2015 (31 December 2014: at 45.1%). As at 31 December 2015, the total borrowings of the Group amounted to RMB1,159.7 million (31 December 2014: RMB1,507.6 million). The total borrowings mainly comprised the 2016 Guaranteed Notes which amounted to US$65.6 million (equivalent to RMB424.8 million) issued in April 2011 and the 2018 Guaranteed Notes which amounted US$30 million (equivalent to RMB191.4 million) issued in December 2015.

SIGNIFICANT INVESTMENTS, MERGERS AND ACQUISITIONS

For the year ended 31 December 2015, the Group spent RMB119.3 million on construction in progress and contracted RMB78.3 million mainly on the infrastructure construction for the control valve business.

CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The Group will strive to maintain its leading position in its core businesses in two major industries of petrochemical and railway.

For the petrochemical segment, the Group will continue to put great emphasis on business development of control valves so as to further enhance its overall competitive advantages in production, sales and marketing and internal operation. To capture opportunities emerged from localization of industrial products in China, the Group will continue its efforts in research and development to develop high-end and diversified control valves. Working in parallel, the Group will sustain its efforts in extending the applications of its safety and critical control systems to upstream oil and gas fields as well as to other industries, in particular industry related to energy efficiency and environment protection. Meanwhile, the Group will seek to increase the revenue contribution from its recurring engineering and maintenance services by its enhanced service teams and through provision of more value-added services.

For the railway segment, the Group will further enhance business development of traction and auxiliary power supply systems. The Group will endeavor additional efforts in securing more traction system projects for urban rail transit.

With a firm footing established in on its solid businesses of safety and critical control systems, control valves and traction and auxiliary power supply systems, the Group is confident about maximizing return for shareholders.

INVESTOR RELATIONS REPORT

In the year of 2015, 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 2015, the Group's top management and IR team participated in the investment forums, as well as different road shows. The team paid visit to the Group's shareholders and potential investors, so as to inform and update them about the Group's latest developments. Meanwhile, the Group has hosted site visits for investors in Hong Kong and Beijing during the period, during which visitors could witness the Group's stable growth with their own eyes.

In 2016 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

EXECUTIVE DIRECTORS

Mr. Xuan Rui Guo (宣瑞國), aged 47, 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 Ernst & Young Entrepreneur of The Year 2009 China. He is an incumbent director of Yabuli Entrepreneur Association and Deputy Chairman of China Instrument and Control Society. Mr. Xuan is also a director and deputy chairman of Guangdong Kaiping Chunhui Co. Ltd. (廣東開平春暉股份有限公司), which is listed on the Shenzhen Stock Exchange (Stock Code: 000976). Mr. Xuan graduated from 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 previously served as General Manager of Boda Telecommunication and Electronics Company Ltd. in Yunnan, China; Manager of Beijing Invention Biology Company Ltd. and General Manager of Beijing Consen Automation Control Co., Ltd., etc.

Mr. Kuang Jian Ping (匡建平), aged 52, the Group's co-founder, Executive Director and Chief Executive Officer, is mainly responsible for the Group's daily operations as well as merger and acquisition strategies. Mr. Kuang holds a master's degree in mechanical engineering from 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 chemical and petrochemical industries in China. Mr. Kuang previously served as Sales Manager of Instrumentation Technology Company of Dalian University of Technology where he was responsible for trading instruments and automation systems. He had also served as Sales Manager and subsequently Deputy General Manager of a subsidiary of China Chemical Industry Equipment and Instrumentation Company in Hainan Province where he was responsible for trading chemical equipment and instruments. Besides, Mr. Kuang had served as Deputy General Manager of Beijing Consen Automation Control Co., Ltd., where he was in charge of sales and marketing.

Mr. Huang Zhi Yong (黃志勇), aged 49, 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 from Dalian University of Technology (大連理工大學). He has over 4 years of experience in mechanical engineering research and development, and over 12 years of experience in managing corporate operations, automation engineering and trading. Mr. Huang worked for the Machinery Research Institute of Sinopec Tianjin Petrochemical Corporation and had served as Deputy General Manager of Beijing Consen Automation Control Co., Ltd.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Wang Tai Wen (王泰文), aged 69, is an Independent Non-executive Director of the Group since January 2008 while serving as External Director of China National Foreign Trade Transportation (Group) Corporation. Mr. Wang is also an independent director of Guangdong Kaiping Chunhui Co. Ltd. (廣東開平春暉股份有限公司), which is listed on the Shenzhen Stock Exchange (Stock Code: 000976). He had also held various managerial positions in Ziyang Internal Combustion Locomotive Plant; served as Chairman, General Manager and Secretary to Communist Party Committee of China National Railway Locomotive Corporation; and as Chairman and Secretary to 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 External Director. According to "Notice on Board of Directors of Wholly State-Owned Companies" issued by State-owned Assets Supervision and Administration Commission of the State Council, as 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 his capacity as a director. He did not participate in any daily operation at both China Railway Engineering Group Company Limited, and companies under the group. He graduated from Dalian Railway Institute (中國大連鐵道學院), China, majoring in machinery and manufacturing.

Mr. Sui Yong-bin (隋永濱), aged 74, is an Independent Non-executive Director since July 2011. Mr. Sui earned a bachelor's degree in chemical and mechanical engineering in 1965. He had served as Commissioner and Deputy Director of Department of Machinery Industry from 1965 to 1997. From 1997 to 2000, he was Deputy Chief Engineer (bureau level) of Machinery Industry Bureau of China, and had also served as Dean of Machinery Industry Information Research Institute and Publisher of Machinery Industry Publishing House. Mr. Sui was Chief Engineer and a member of Specialized Committee of China Machinery Industry Federation from 2000 to 2008. From 2008 to present, he has been serving as Special Consultant of China Machinery Industry Federation. Mr. Sui has long been engaging in the industry in areas such as machinery industry technology, planning, research and development of major technologies and equipment in a management capacity. Mr. Sui has also been serving as 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, External Director of Harbin Air Conditioning Co., Ltd. (哈爾濱空調股份有限公司) since May 2008 and 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.

Mr. Ng Wing Fai (吳榮輝), aged 57, is an Independent Non-executive Director since June 2007. He has over 15 years of experience in audit, taxation and consultancy in government and non-government institutes. Mr. Ng holds a bachelor's of arts degree 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 UK and Hong Kong law from The Manchester Metropolitan University. He is a fellow member of Hong Kong Institute of Certified Public Accountants, an associate member of Institute of Chartered Accountants in England and Wales, a council member of Society of Chinese Accountants & Auditors, and a member of Hong Kong Securities Institute.

SENIOR MANAGEMENT

Mr. Cui Da Chao (崔大潮), aged 59, is 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 served 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), China, with a specialization in international accounting.

Mr. Zhou Zheng Qiang (周政強), aged 50, Senior Vice President of the Group, is primarily responsible for overseeing marketing development of the Group. He graduated with a bachelor's degree in process automation from the Department of Chemical Engineering in Zhejiang University (浙江大學) and also holds a Certificate of Senior Automation Engineer in China. He had served 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 (西安藍溪控制系統工程有限責任公司). He joined the Group in February 2006.

Mr. Duan Min (段民), aged 49, 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 of experience working in the automation systems and instruments industry China. He joined the Group in May 1999.

Mr. Chen Yong (陳勇), aged 48, is 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 in 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 computer applications, and from 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 47, is 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 earned a PhD in engineering and Special State Allowance Scholar. In 2001, he was named a National Youth Station Expert. In 2002, he won the National Youth Creativity and Efficiency Award. In 2011, he received a national science and technology prize in the 11th Five year Plan of China for his outstanding contributions. In 2013, he was named a China youth science and technology innovation talent. From 1991 to 2001, Mr. Ma was a technician and Director of the technology department in Wuzhong Instrument Co., Ltd.. During the period between 2001 and 2006, served as Deputy General manager of Wuzhong Instrument Co., Ltd.

Ms Wang Yan Mei (王彥梅), aged 75, is Chairman and General Manager of the Beijing Haidian ZhongJing Engineering Software Technologies Ltd. She graduated from the mechanical engineering department at Beijing Institute of Petroleum in 1964, majoring in oil storage and transportation. Then she served in 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 Chairman of 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.

Mr. Tian Lei (田磊), aged 52, 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's 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 Deputy Director of Zhuzhou Electric Locomotive Research Institute. Subsequently, from 2000 to 2007, he successively served as Vice President and Secretary of Party Committee of Zhuzhou Times Group, and meanwhile he was Secretary of Party Committee and 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 Hong Kong). 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.

Mr. Wang Jing Hua (王景華), aged 53, is President of Beijing Consen Oil and Gas Process Control Company Limited. He graduated from School of Technology and Business Management of Renmin University of China (中國人民大學) with a 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 Deputy General Manager of Beijing Kang Bosen Gas Turbine Engineering Co. Ltd. In 2007, he served as Chief Executive Officer of Hong Kong Feilite International, LLC. Mr. Wang joined the Group in 2008 and seconded to Beijing Consen Oil and Gas Engineering Co., Ltd. as General Manager in September 2011.

Mr. Lu Ming Yi (魯明義), aged 51, is General Manager of Beijing Consen Oil & Gas Engineering Co., Ltd. He graduated from School of Nanjing Aeronautical University (南京航空航天大學), with a bachelor's degree in design of instrument and transducer, aeronautical I&C. From August 1987 to February 1993, he served as a gas turbine engineer in Liming Aero-engine Manufacturing Company. From March 1993 to February 1997, he served as Deputy General Manager for operations and maintenancein Zhuhai Power Development Company. From March 1997 to January 2002, he served as Deputy General Manager of AES Corporation, and took charge of Sino-America joint venture power plants. From February 2002 to December 2003, he served as General Manager in UFTC Information Technology Company, Zhuhai. From January 2004 to August 2006, he served as Chief Engineer in Beijing Kang Bosen Gas Turbine Engineering Co., Ltd. From September 2006 to February 2010, he served as deputy chief engineer in China Aeronautical Industrial Gas Turbine (Group) Company. He joined the Group in 2010.

Mr. William Erik Barkovitz, aged 45, 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 graduation, he started his career in control and automation. From 1994 to 2005, Mr. Barkovitz worked for Triconex Corporation, a division of Invensys. Triconex is a global leading supplier of safety, critical control, and turbomachinery systems for the process industries. He served as Sales Director of Northern Asia Pacific, based in Singapore from 1995-1998, General Sales Manager of Europe, Middle East, and Africa from 1998-2001, base in the UK. In 2001, Mr. Barkovitz moved to the Triconex corporate headquarters in Irvine, California to assume the position 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.

Ms. Dong Yan (董艷), aged 48, is President's Assistant of the Group. Ms. Dong joined the Group in September 2003. She graduated from Tsinghua University with a bachelor's degree in chemical engineering. From 1990 to 1993, Ms. Dong was a production planning officer of Beijing Chemical Industry Group. From 1993 to 2003, she served at Beijing Chemical Group Import and Export Co., Ltd. as a department manager. In China Automation Group Co., Ltd., Ms. Dong is in charge of the Board of Directors, legal issues and business administration affairs.

Mr. Chow Chiu Chi (周昭智), aged 57, is the Group's Finance Director and Company Secretary. He joined the Group in June 2006. He graduated from Hong Kong Polytechnic University with a bachelor's degree of arts in Accountancy. He is an associate member of The Chartered Institute of Management Accountants and a fellow member of Hong Kong Institute of Certified Public Accountants. He also obtained a master's degree in business administration from Hong Kong Polytechnic University. He has over 30 years of experience in finance, accounting and internal audit.

The Directors are pleased to present their report together with the audited consolidated financial statements for the year ended 31 December 2015.

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 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.

BUSINESS REVIEW

The business review of the Group as at 31 December 2015 is set out in the section headed "Chairman's Statement" and "Management Discussion and Analysis" from page 7 to 17 of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of comprehensive income from page 38 to page 39 of this annual report.

KEY RISKS AND UNCERTAINTIES

RELIANCE ON THE OVERALL DEMAND OF VARIOUS PROCESSING INDUSTRIES

The business of the Group is largely dependent on the development of various processing industries in the PRC including petrochemical, coal chemical, oil and gas, iron and steel as well as railway transportation industries. The sale of safety and critical control systems used in various processing industries may be affected by the investment, profitability, and overall demand generated from those industries. Although the Group's major products are used in those industries that are encouraged by the PRC Government, if these existing government policies are changed to the disadvantage of these industries, the Group's sales to such industries may be adversely affected.

CHANGES IN ECONOMIC DEVELOPMENTS IN CHINA OR A DOWNTURN IN THE ECONOMY IN CHINA MAY ADVERSELY AFFECT THE GROUP'S BUSINESS

The Group mainly conducts its business through its operating subsidiaries in China. Therefore, the Group's results of operations and financial positions will continue to be affected, to a large extent, by economic developments in China.

The growth of the Chinese economy has been uneven across different geographic regions and various economic sectors. The effects on the Group's business, financial position or results of operations brought about by the future economic trends or the growth of gross domestic product cannot be accurately predicted and hence increasing the uncertainties of the Group's future development. Since the Group mainly derives its sales from China, the Group's continued growth depends heavily on the general economic condition in China. A downturn or slowdown in China's economic growth may have material adverse effects on the Group's operational and financial results.

A PROLONGED DECLINE IN OIL PRICES COULD ADVERSELY AFFECT THE DEMAND FOR OUR PRODUCTS IN THE PETROCHEMICAL AND COAL CHEMICAL INDUSTRIES

The demand for our products in the petrochemical and coal chemical industries is influenced by current and anticipated oil prices and the level of capital expenditures in these industries, which is in turn affected by oil prices. Oil prices are largely affected by global general demand for energy, which in turn affects the coal industry and coal chemical industry. A reduction or prolonged decline in oil prices could have a material adverse impact on the demand for our products for the coal chemical industry.

Producers generally react to declining oil prices by reducing expenditures. This may in the future have an adverse effect on our business. It would be hard to predict the future oil prices or the level of activity for the oil industry. A prolonged low level of activity in the oil and gas industry will adversely affect both the demand for petrochemical and coal chemical industry products and our financial positions and results of operations.

OUR RESULTS MAY BE AFFECTED BY THE DEPTH, BREADTH AND PROGRESS OF MIXED OWNERSHIP REFORMS OF STATE-OWNED ENTERPRISES IN CHINA

In recent years, China has implemented various measures emphasizing mixed ownership reforms for state-owned enterprises. These reforms may not be applied uniformly across various industries or regions in the PRC. As a result, some of these reforms may affect the industries which we engage in. Results of our operations may be adversely affected by the pace of mixed ownership reforms of state-owned enterprises.

DIVIDEND

The Board did not recommend the distribution of final dividend (2014: Nil) for the year ended 31 December 2015.

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 Monday, 23 May 2016 to Friday, 27 May 2016 (both dates inclusive), during such period no transfer of shares of the Company will be registered. For determining the entitlement to attend and vote at the annual general meeting, 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 Friday, 20 May 2016.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2015 is set out on page 120 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 2015 are set out on page 42 of this annual report. As at the balance sheet date, the Company's distributable reserves amounted to RMB882,386,000 (2014: RMB1,004,535,000), subject to the applicable statutory requirements under the laws of the Cayman Islands.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report relating to share option scheme, no equity-linked agreements were entered into during the year ended 31 December 2015 or subsisted at the end of the year.

SHARE CAPITAL

Details of the movements of the share capital of the Company during the year ended 31 December 2015 are set out in note 37 to the consolidated financial statements.

CHARITABLE CONTRIBUTIONS

The Group did not make any charitable contribution during the year ended 31 December 2015 (2014: RMB100,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2015 are set out in note 49 to the consolidated financial statements.

EMPLOYEES

As at 31 December 2015, the Group had a total of 2,024 employees (31 December 2014: 2,813). The significant decrease in staff headcount was mainly attributable to (i) the disposal of 76.7% equity interest in Beijing Jiaoda Microunion by the Group; and (ii) the business restructuring programme that saw scaling back of the non-profit making business units; retrenching redundant staff so as to enhance the Group's overall operational efficiency and to maintain its competitiveness.

The emoluments payable to the employees of the Group are determined by their responsibilities, qualifications, performance and 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. Kuang Jian Ping and Mr. Wang Tai Wen 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 the 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 2015 are set out in note 13 to the consolidated financial statements.

The contributions to pension schemes for the Directors for the year ended 31 December 2015 are disclosed in note 13 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 19 to 21 of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or 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 ended 31 December 2015 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 46 to the consolidated financial statements, at no time during the year ended 31 December 2015 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.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that for the time being acting in relation to any of the affairs of the Company, except in certain circumstances (as set out in the Articles of Association of the Company, every director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of duties of his/her office or otherwise in relation thereto.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company and its subsidiaries.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2015, 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

	No. of shares						
Name of Director	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**	**Interest in underlying shares pursuant to share option scheme** (Note 2)	**Total**	**Approximate percentage of shareholding**
Mr. Xuan Rui Guo	1,000,000	–	457,933,541 (Note 1)	–	3,100,000	462,033,541	45.02%
Mr. Huang Zhi Yong	–	–	–	–	4,380,000	4,380,000	0.43%
Mr. Kuang Jian Ping	–	–	–	–	4,380,000	4,380,000	0.43%
Mr. Wang Tai Wen	–	–	–	–	200,000	200,000	0.02%
Mr. Ng Wing Fai	–	–	–	–	200,000	200,000	0.02%

Notes: (1) Consen Group Holding Inc. ("Consen Group") was the legal and beneficial owner of 457,933,541 shares of the Company. Consen Group was owned as to 93.80% by Consen Investments Holding Inc. ("Consen Investments"). Consen Investments was owned as to 50%, 25% and 25% by Beijing Consen Holding Inc. ("Consen Holding"), Newday Resources Limited and Cowin Resources Limited, which were in turn wholly owned by Mr. Xuan Rui Guo ("Mr. Xuan"), Mr. Kuang Jian Ping and Mr. Huang Zhi Yong respectively. Accordingly, Mr. Xuan was deemed to be interested in the 457,933,541 shares held by Consen Group by virtue of the SFO.

(2) Certain Directors have been granted share options under a share option scheme. Details of the share option scheme are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 31 December 2015, 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 2015, 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 2015, 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 29 May 2013 (being 102,626,372 shares), the date of approving refreshment of scheme mandate limit by an ordinary resolution of the shareholders of the Company.

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 fifth anniversary of the date of grant. The exercise price is determined by the Directors of the Company, and will not be less than the highest 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 31 December 2015 and as at the date of this annual report, no options were granted and exercised.

			Number of Share Options						
Name of grantee	Date of grant	Exercise price per share *(HK$)*	As at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31 Dec 2015	Note
Mr. Xuan Rui Guo	25/7/2014	HK$1.6	3,100,000	–	–	–	–	3,100,000	1, 2
Mr. Huang Zhi Yong	25/7/2014	HK$1.6	4,380,000	–	–	–	–	4,380,000	1, 2
Mr. Kuang Jian Ping	25/7/2014	HK$1.6	4,380,000	–	–	–	–	4,380,000	1, 2
Mr. Wang Tai Wen	25/7/2014	HK$1.6	200,000	–	–	–	–	200,000	1, 2
Mr. Ng Wing Fai	25/7/2014	HK$1.6	200,000	–	–	–	–	200,000	1, 2
Employees	25/7/2014	HK$1.6	90,366,000	–	–	–	–	90,366,000	1, 2
Total			102,626,000	–	–	–	–	102,626,000	

Note:

(1) The options have a validity period from 25 July 2014 to 24 July 2018. None of the share options is exercisable during the period from 25 July 2014 to 24 July 2015. The share options will be exercisable in the following manner:

(i) up to one third of the Share Options will become exercisable commencing on 25 July 2015;

(ii) up to one third of the Share Options will become exercisable commencing on 25 July 2016;

(iii) up to one third of the Share Options will become exercisable commencing on 25 July 2017;

provided that the relevant performance targets are achieved, and the closing price of the Share on the trading day immediately preceding the date of exercise is HK$2.4 or above.

(2) The closing price of the shares of the Company immediately before the date on which the options were granted (i.e. as of 24 July 2014) was HK$1.62.

The fair value of the share options granted by the Company under the Scheme is set out in note 46 to the consolidated financial statements.

The above grant of share options has been approved by the independent non-executive Directors (save that each of the independent non-executive Directors has abstained from approving the resolution relating to the grant of share options to himself) and is not subject to approval by shareholders of the Company under Rule 17.04(1) of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2015, the Company has not repurchased, sold or redeemed any of its shares on the Stock Exchange.

PRE-EMPTIVE RIGHTS

No provisions for pre-emptive rights exist in the laws of 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 ended 31 December 2015.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and revenue relating to continuing operations for the year ended 31 December 2015 attributable to the Group's major suppliers and customers respectively are as follows:

	2015 %	2014 %
Continuing operations		
Purchases		
– the largest supplier	**17.8**	16.8
– the five largest suppliers combined	**31.8**	29.2
Revenue		
– the largest customer	**14.4**	10.3
– the five largest customers combined	**36.7**	32.9

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.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND INVESTORS

The Company recognizes that our employees, customers and business associates are keys to our sustainability journey. We strive to achieve corporate sustainability through engaging our employees, providing quality services for our customers, collaborating with business partners and supporting our community.

RELATIONSHIP WITH EMPLOYEES

The Company places significant emphasis on human capital. The Company provides a fair workplace, promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. The Company administers its employee health and safety management system and ensures the adoption of proper principles across the Group. The Company provides regular trainings for staff to keep them abreast of the latest developments in the market and industry, in the form of both internal trainings and trainings provided by experts from external organizations.

RELATIONSHIP WITH CUSTOMERS

To enhance customer satisfaction and promote a customer-oriented culture within the Company, we value the feedbacks from clients through daily communications, regular visits and client dialogues. We treat feedbacks from clients as an opportunity to improve our relationships with them, addressing the concern in a timely manner and in accordance with conventional standards.

Most of the Group's customers are sizable and reputable companies in China. The sizable and reputable customers of the Group not only provide the Group with a stable demand for its products and services but also lower the risk of default payment. The Group has a strong marketing team that is responsible for organising regular meetings and seminars so as to maintain good relationships with customers, understand customers' needs and to keep abreast of the latest market trends and developments. The Group provides quality after-sales services and maintains close relationships with customers which help the Group to secure more business in system upgrading and maintenance service as well as gaining information on potential new projects.

RELATIONSHIP WITH SUPPLIERS

We believe that our suppliers (including contractors) are equally important in driving quality delivery of our engineering services. We proactively collaborate with our business partners (including suppliers and contractors) to deliver quality sustainable products and services. To communicate with contractors on sustainability issues, we have developed proper codes of conducts for suppliers and included the associated requirements in supplier contracts. These requirements include regulatory compliance, labour practices, anti-corruption, environmental measures, green procurement, occupational safety and health and other business ethics. We assure the performance of our suppliers through supplier approval process and by conducting factory audits/site visits, laboratory tests by accredited laboratories in China on the delivered services during the contractual periods.

RELATIONSHIP WITH INVESTORS

The advice we receive from investors provide strong support to our business improvement. We believe effective communications and accurate information disclosure help nurture investor confidence, and also facilitates the flow of constructive feedback and ideas that are beneficial for our investor relations and future corporate development. Besides regular results announcements and corporate disclosures, we facilitate our communications with investors by explaining financial and operational information through conference calls, meetings and roadshows.

SUBSEQUENT EVENT

No significant event occurred after the end of the reporting year up to the approval date of the financial statements.

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 to the best 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 as required under the Listing Rules.

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 to the Listing Rules. The consolidated financial statements of the Group for the six months ended 30 June 2015 and the year ended 31 December 2015 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 of the Company.

On behalf of the Board

Xuan Rui Guo
Chairman
Hong Kong, 24 March 2016

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 contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hongkong Limited (the "Listing Rules") throughout the year ended 31 December 2015.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 set out in the Model Code during the year ended 31 December 2015.

BOARD OF DIRECTORS

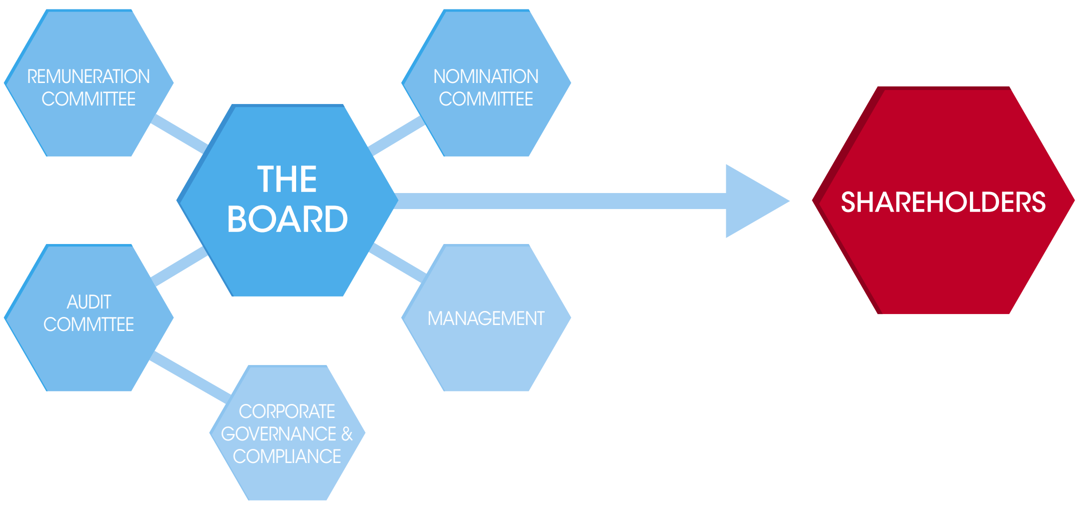
The overall management of the Company's business is vested in the Board. The Board has delegated the day-to-day management of the Company's business to the executive management team, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. Major 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 comprises 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. Non-executive Directors have a term of office of three years, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.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.

Five Board meetings were held during the year ended 31 December 2015. 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's approval. The Board's consents were given by vote at the Board meetings.

If a Director has a 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 must declare 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:

	Number of meetings attended/Number of meetings held (during Director's tenure)				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**AGM**
Executive Directors					
Mr. Xuan Rui Guo	5/5	N/A	1/1	1/1	0/1
Mr. Huang Zhi Yong	5/5	N/A	1/1	N/A	1/1
Mr. Kuang Jian Ping	5/5	N/A	N/A	1/1	0/1
Independent non-executive Directors					
Mr. Wang Tai Wen	5/5	2/2	1/1	1/1	0/1
Mr. Ng Wing Fai	5/5	2/2	1/1	1/1	1/1
Mr. Sui Yong Bin	5/5	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.

The company secretary regularly updates the Board on governance and regulatory matters.

Whenever the Board appoints a new Director, such new 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 2015 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 Corporate Governance 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 provided 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.

Two Audit Committee meetings were held 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 2015 and the year ended 31 December 2015.

REMUNERATION COMMITTEE

The Remuneration Committee was established in June 2007 and its 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 Corporate Governance 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 the meeting.

NOMINATION COMMITTEE

The Nomination Committee was established in June 2007 and its current 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 the Nomination 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 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 ("Board Diversity Policy") for the Company in August 2013 which stipulates that for selection of candidates to become Directors, the Nomination Committee should take into consideration 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 Company's website. The Committee will review the policy to ensure its effectiveness.

In accordance with the Articles of Association of the Company, Mr. Kuang Jian Ping and Mr. Wang Tai Wen shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

AUDITORS' REMUNERATION

For the year ended 31 December 2015, the fees charged by the Company's auditors in respect of audit and non-audit (taxation and enterprise risk management) services amounted to approximately RMB4,070,000 (2014: RMB3,475,000) and RMB800,000 (2014: RMB350,000) 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 37 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for implementation and maintenance of the Group's system of risk management and internal controls for the smooth running of its business. 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. The Board reviewed the Group's risk management and internal control system for the year ended 31 December 2015.

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 the 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 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, Hongkong or facsimile number (852) 2598 6633; or (ii) the principal place of business and head office of the Company in Beijing at No. 7, Anxiang Street, Area B, Tianzhu Airport Economic Development Zone, 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 year ended 31 December 2015.

In order to fulfill our social and business responsibilities, we support protection of the environment, promotion of better human health and strive to minimize wasting natural resources in our production operations. This applies to all our operation units in every location where we have operations in.

As a leading participant in respective key industries we have a special responsibility when facing long-term challenges such as demographic changes, climate changes and diminishing resources. Sustainability is the key to securing our Company's future. Our commitment to be a socially responsible company requires that we meet the demands from normal business activities in an ecologically and socially sound manner.

The Group strives to improve the quality of life through our advanced products, systems and solutions. This includes high energy efficiency for climate protection, supply of clean water, health protection and environmentally compatible transportation systems.

We design, develop, manufacture and market our products and services so as to protect the environment and human health in a manner that is compliant with relevant regulations, and to minimize the negative impact on natural resources. We design our working conditions in ways that safeguard our employees' performance, safety, health, motivation and satisfaction.

All managers and employees act in accordance with this policy and observe the relevant regulations.

INDUSTRIAL ENVIRONMENTAL PROTECTION

Our industrial environmental protection efforts focus on optimizing energy and resource efficiency at our operations. We strictly execute the industrial standards, and try to create a harmonious industrial environment.

PRODUCT-RELATED ENVIRONMENTAL PROTECTION

The major focus of our product-related environmental protection is to ensure the overall environmental performance of our products and systems remains high and meets applicable standards. We support the reduction of the environmental impacts of our products and systems during product development, production, use and disposal. In 2015, we continuously upgraded our systems to improve their efficiency. Our systems have been optimized with process card control, which are applied on different equipment, including catalytic gas compressor, coking pressure machine, compression type refrigeration units and the main air blower. This achieved good results of reducing energy consumption.

We seek to maintain our operating units better at high standards to stay compliant with regulatory and customer requirements, to raise environmental awareness among our employees.

ENVIRONMENTAL MANAGEMENT

We implement environmental management at all locations where we have operations in. We made decisions to implement environmental management in our business units upon consultation with environmental protection professionals and authorities.

In the financial year 2015, our total consumption of natural and liquid petroleum gases has declined by 28.6%. The consumption of other fossil fuels plays a minor role compared to gas consumption and coal consumption has decreased by 300 tons. Overall, the total decrease in primary energy consumption has met our yearly target. In order to keep the production environment green and comfortable, more green woods have been planted in the office park. In the office, we take measures of "Green Office", including encouraging paperless office, double-side printing, switching off the power supply after work, using drinking cups instead of paper cups, etc., so as to ensure a green and low-carbon development.

We managed to lower the water consumption 0.78 ton per RMB10,000 turnover and electricity consumption to 135 kilowatt hours per RMB10,000 turnover in the year. We will keep protecting our environment from these sources. Moreover, we have established a special company to deal with waste heat recovery. Where there is an industrial process that involves transforming raw materials into useful products, such as steel mills, paper plants, refineries, chemical plants, oil and gas pipelines, pollution control equipment, and general manufacturing, heat is wasted. Waste heat recovery is the process of collecting waste heat and using it to fulfill a desired purpose. We aim to collect and convert the waste heat to reduce energy consumption and protect the environment.

WASTE MANAGEMENT

We strictly control waste management and take control procedures to ensure a safe operation. The various wastes are processed in a way to meet the environmentally friendly standards, and are clean, without any pollution. The environmental impact created by waste disposal and treatment depends on the type of waste and its method of disposal. We strive to differentiate between hazardous and non-hazardous waste after waste collection according to relevant national guidance. These two groups of waste are further divided into recyclable waste and waste for disposal. For the recyclable waste, we have a special department to deal with it in accordance with an unified process. We have a special storehouse for hazardous waste, which is managed strictly according to government environmental requirements. The transfer and disposal of the waste shall be made in time effectively. We make sure all the processes are permitted by regulation and environmentally friendly.

BIODIVERSITY

Employees of the Group demonstrate their commitment to the conservation of nature and wildlife through projects at the local level such as planting trees, thus restoring green spaces, improving the microclimate and facilitating wildlife protection.

LIFE-CYCLE THINKING

The management of the Group believes that by reusing, refurbishing or recycling products, components or materials, they can perpetuate their useful lives which will lessen the demand for fresh materials. This will therefore make a substantial contribution to the protection of the environment. The handling of used electrical and electronic equipment or its disposal entails much more than collecting and recycling old devices. Therefore the Group places focus on having an efficient return and recycling system in place for these devices and in these operations.

HIGHLIGHTING ENVIRONMENTAL CONSERVATION AWARENESS IN BUSINESS DEVELOPMENT

Our combination of patented technologies, strong research and development capabilities, ability to leverage strategic alliances and acquisitions to enter and penetrate new market segments, and a comprehensive understanding of the market in China should allow us to capitalize on the increasing opportunities in the growing industrial automation market, driven by environment protection, clean energy, lower carbon emission, national economic development, and rising labor costs in the country.

In addition, the increasing awareness and bourgeoning trend for environmental protection, waste material treatment and recycling will increase the demand for technology applications in automation as well.

China's rail infrastructure system is expected to continue to receive significant government investments due to continuing urbanization and increasing awareness for environmental protection. Leveraging on our know-how from traction and auxiliary power supply systems, we will continue our research and development efforts and investments in this space.

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 38 to 119, which comprise the consolidated statement of financial position as at 31 December 2015, 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 issued by International Accounting Standards Board 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 issued by International Auditing and Assurance Standards Board. 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 financial position of the Group as at 31 December 2015, and of its financial performance 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
Certified Public Accountants
Hong Kong
24 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000 (Re-presented) (Note 12)
(Loss) profit for the year attributable to:			
Owners of the Company		**(105,114)**	35,272
Non-controlling interests		**(41,144)**	11,473
		(146,258)	46,745
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(106,172)**	36,470
Non-controlling interests		**(41,144)**	11,473
		(147,316)	47,943
(Loss) earnings per share	16		
From continuing and discontinued operations			
Basic and diluted (RMB cents)		**(10.24)**	3.44
From continuing operations			
Basic and diluted (RMB cents)		**(31.06)**	0.75

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
Non-current Assets			
Property, plant and equipment	17	**633,423**	498,295
Deposit for acquisition of property, plant and equipment		**5,223**	19,573
Prepaid lease payments – non-current portion	18	**136,315**	106,899
Intangible assets	19	**81,810**	463,060
Goodwill	20	**8,890**	141,792
Interests in associates	22	**23,092**	24,667
Interest in a joint venture	23	**5,433**	4,220
Pledged bank deposits	30	**4,731**	8,727
Deferred tax assets	24	**32,209**	45,328
Available-for-sale financial assets	25	**64,217**	64,217
Embedded derivative financial asset	35	**–**	47
		995,343	1,376,825
Current Assets			
Prepaid lease payments – current portion	18	**3,434**	2,770
Inventories	26	**635,131**	749,609
Trade and bills receivables	27	**1,602,558**	1,846,394
Other receivables and prepayments	28	**176,954**	166,663
Amounts due from customers for contract work	29	**–**	51,545
Pledged bank deposits	30	**73,576**	110,167
Bank balances and cash	31	**601,241**	395,231
		3,092,894	3,322,379
Current Liabilities			
Trade payables	32	**502,410**	533,933
Other payables, deposits received and accruals	33	**302,928**	329,386
Dividend payable		**6**	6
Income tax payable		**12,596**	4,095
Bank borrowings – due within one year	34	**283,551**	346,757
Guaranteed notes – due within one year	35	**424,817**	–
		1,526,308	1,214,177
Net Current Assets		**1,566,586**	2,108,202
Total Assets less Current Liabilities		**2,561,929**	3,485,027

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
Capital and Reserves			
Share capital	37	**9,548**	9,548
Share premium and reserves	38	**1,763,462**	1,866,458
Equity attributable to owners of the Company		**1,773,010**	1,876,006
Non-controlling interests		**148,171**	325,996
Total Equity		**1,921,181**	2,202,002
Non-current Liabilities			
Deferred tax liabilities	24	**16,640**	63,294
Bank borrowings – due after one year	34	**160,000**	–
Guaranteed notes – due after one year	35	**191,358**	1,160,804
Long term payable	36	**100,000**	–
Deferred income	39	**172,750**	58,927
		640,748	1,283,025
Total Equity and Non-current Liabilities		**2,561,929**	3,485,027

The consolidated financial statements on pages 38 to 119 were approved and authorized for issue by the Board of Directors on 24 March 2016 and are signed on its behalf by:

Director

Zhiyong Huang

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

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

1. GENERAL

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 9 *Financial Instruments*

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

Key requirements of IFRS 9 are described as follows:

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

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

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

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

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

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

IFRS 16 *Leases*

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Business combinations

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

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

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

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

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

Goodwill

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments in associates and joint ventures

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments in associates and joint ventures – continued

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment

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

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

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

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

Buildings under development for future owner-occupied purpose

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

Construction contracts

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leasing

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

The Group as lessee

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

Leasehold land and building

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

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

Foreign currencies

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Borrowing costs

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

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

Government grants

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

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

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

Retirement benefits costs

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible assets

Intangible assets acquired separately

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

Research and development expenditure

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

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

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

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

Intangible assets acquired in a business combination

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment losses on tangible and intangible assets other than goodwill

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

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

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

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Loans and receivables

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

Available-for-sale financial asset

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

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

Impairment of financial assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

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

Other financial liabilities

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

Effective interest method

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

Interest expense is recognized on an effective interest basis.

Derivative financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Derecognition

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

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

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

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of trade and other receivables

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

In making the estimates, management considered detailed procedures have been in place to monitor this risk. In estimating whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the aggregate carrying amount of trade and other receivables (net of allowance for doubtful debts), was approximately RMB1,479,686,000 (2014: RMB1,655,004,000). Details of movements of allowance for trade receivables and other receivables are disclosed in Notes 27 and 28 respectively.

Indefinite useful life of trademarks

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

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

Useful lives of license

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

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

Estimated impairment of goodwill

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

5. REVENUE

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

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

6. SEGMENT INFORMATION

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

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

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

6. SEGMENT INFORMATION – CONTINUED

Segment revenues and results

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

2015

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

2014

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

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

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

6. SEGMENT INFORMATION – CONTINUED

Segment assets and liabilities

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

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

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

- all assets are allocated to operating segments other than unallocated corporate assets, mainly included bank balances and cash, property, plant and equipment and intangible assets.
- all liabilities are allocated to operating segments other than unallocated corporate liabilities, mainly include other payables, dividend payable, guaranteed notes and bank borrowings.

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

6. SEGMENT INFORMATION – CONTINUED

Other segment information

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

2015

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

2014

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

6. SEGMENT INFORMATION – CONTINUED

Geographical information

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

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

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

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

Revenue by products and services

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

Information about major customers

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

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

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

7. OTHER INCOME

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

Notes:

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

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

8. OTHER GAINS AND LOSSES

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

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

9. FINANCE COSTS

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

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

No interest was capitalized during the prior year.

10. INCOME TAX EXPENSES

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

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

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

10. INCOME TAX EXPENSES – CONTINUED

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

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

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

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

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

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

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

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

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

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

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

12. DISCONTINUED OPERATIONS

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

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

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

12. DISCONTINUED OPERATIONS – CONTINUED

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

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

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	2015					
	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Performance related incentive payments RMB'000	Equity-settled share-based payments RMB'000	Total emoluments RMB'000
Executive directors						
Mr. Xuan Rui Guo (Note)	–	895	40	–	96	1,031
Mr. Kuang Jian Ping	–	527	8	–	136	671
Mr. Huang Zhi Yong	–	495	8	–	136	639
Sub-total	–	1,917	56	–	368	2,341
Independent non-executive directors						
Mr. Wang Tai Wen	146	–	–	–	6	152
Mr. Ng Wing Fai	195	–	–	–	6	201
Mr. Sui Yong Bin	146	–	–	–	–	146
Sub-total	487	–	–	–	12	499
Total	487	1,917	56	–	380	2,840

	2014					
	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Performance related incentive payments RMB'000	Equity-settled share-based payments RMB'000	Total emoluments RMB'000
Executive directors						
Mr. Xuan Rui Guo (Note)	–	1,511	34	1,397	52	2,994
Mr. Kuang Jian Ping	–	1,451	34	1,397	74	2,956
Mr. Huang Zhi Yong	–	1,451	34	1,397	74	2,956
Sub-total	–	4,413	102	4,191	200	8,906
Independent non-executive directors						
Mr. Wang Tai Wen	142	–	–	–	3	145
Mr. Ng Wing Fai	189	–	–	–	3	192
Mr. Sui Yong Bin	142	–	–	–	–	142
Sub-total	473	–	–	–	6	479
Total	473	4,413	102	4,191	206	9,385

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

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – CONTINUED

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

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

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

14. EMPLOYEES' EMOLUMENTS

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

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

Their emoluments were within the following bands:

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

15. DIVIDENDS

No interim dividends have been declared in the current year.

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

16. (LOSS) EARNINGS PER SHARE

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

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

(Loss) earnings

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

Weighted average number of shares

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

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

17. PROPERTY, PLANT AND EQUIPMENT

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

17. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

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

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

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

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

18. PREPAID LEASE PAYMENTS

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

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

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

19. INTANGIBLE ASSETS

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

Note: Development costs capitalized are internally generated.

19. INTANGIBLE ASSETS – CONTINUED

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

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

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

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

Impairment losses recognized in the year

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

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

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

20. GOODWILL

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

21. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

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

21. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS – CONTINUED

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

Unit A

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

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

Unit B

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

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

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

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

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

22. INTERESTS IN ASSOCIATES

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

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

Name of entity	Date of establishment	Place of establishment and operation	Issued and fully paid up share capital	Equity interest attributable to the Group 2015	Equity interest attributable to the Group 2014	Principal activities
廣州ABB微聯牽引設備有限公司 ABB Microunion Traction Equipment Company Limited ("ABB Microunion")	16 July 2010	PRC	US$6,000,000	– (Note)	50%	Traction converters and auxiliary converters
上海金子自動化儀錶有限公司 Shanghai Kaneko Auto-Instrument Company Limited ("Shanghai Kaneko")	27 May 2004	PRC	JPY130,000,000	23.08%	23.08%	Manufacture of industrial automatic control valves
遼寧汽輪動力有限公司 Liaoning Steam Turbine Power Company Limited ("Liaoning Steam Turbine")	7 September 2012	PRC	RMB100,000,000	25%	25%	Manufacture of industrial steam turbines

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

22. INTERESTS IN ASSOCIATES – CONTINUED

Summarized financial information of material associates

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

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

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

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

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

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

Aggregate information of associates that are not individually material

	2015 RMB'000	2014 RMB'000
The Group's share of profits	19	122
The Group's share of total comprehensive income	19	122
Aggregate carrying amount of the Group's interests in these associates	1,275	1,256

23. INTEREST IN A JOINT VENTURE

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

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

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

24. DEFERRED TAX ASSETS/LIABILITIES

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

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

24. DEFERRED TAX ASSETS/LIABILITIES – CONTINUED

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

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

Notes:

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

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

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

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

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

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

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

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

26. INVENTORIES

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

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

Details of inventories pledged are set out in Note 42.

27. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

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

27. TRADE AND BILLS RECEIVABLES – CONTINUED

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

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

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

Movements in the allowance for doubtful debts

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

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

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

27. TRADE AND BILLS RECEIVABLES – CONTINUED

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

As at 31 December 2015

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

As at 31 December 2014

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

28. OTHER RECEIVABLES AND PREPAYMENTS

An analysis of other receivables and prepayments is as follows:

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

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

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

Movements in the allowance for doubtful debts

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

29. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

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

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

30. PLEDGED BANK DEPOSITS

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

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

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

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

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

31. BANK BALANCES AND CASH

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

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

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

32. TRADE PAYABLES

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

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

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

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

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

33. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

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

33. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS – CONTINUED

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

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

34. BANK BORROWINGS

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

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

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

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

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

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

35. GUARANTEED NOTES

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

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

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

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

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

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

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

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

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

35. GUARANTEED NOTES – CONTINUED

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

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

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

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

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

35. GUARANTEED NOTES – CONTINUED

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

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

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

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

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

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

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

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

36. LONG TERM PAYABLE

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

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

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

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

37. SHARE CAPITAL

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

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

38. RESERVES

(i) Share premium

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

(ii) Other reserves

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

(iii) Statutory surplus reserves

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

(iv) Share option reserve

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

39. DEFERRED INCOME

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

Notes:

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

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

40. CAPITAL RISK MANAGEMENT

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

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

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

41. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

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

(ii) Financial risk management objectives and policies

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

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

Credit risk

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

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

41. FINANCIAL INSTRUMENTS – CONTINUED

(ii) Financial risk management objectives and policies – continued

Currency risk

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

The carrying amounts of the Groups' foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
US$	**675,703**	1,232,147	**350,646**	133,911
JPY	**75,245**	60,020	**75,257**	89,497
EUR	**5,271**	6,330	**15,358**	27,335
HK$	**–**	–	**212**	202
SG$	**184**	757	**26**	25
GBP	**–**	1,679	**3**	3
THB	**–**	27	**–**	–
TOTAL	**756,403**	1,300,960	**441,502**	250,973

The Group currently does not have a formal foreign currency hedging policy. The management reviewed and monitored the currency risk exposure regularly.

The following table details the Group's sensitivity to a 5% (2014: 1%) increase and decrease in RMB against the major foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of reporting period for a 5% (2014: 1%) change in foreign currency rates. A negative number below indicates a decrease in profit for the year where RMB weakens 5% (2014: 1%) against foreign currencies. For a 5% (2014: 1%) strengthening of RMB against foreign currencies, there would be an equal and opposite impact on the profit, and the balances below would be positive.

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
US$	**(17,076)**	(11,085)
JPY	**1**	246
EUR	**421**	176

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure, which does not reflect the exposure during the reporting period.

41. FINANCIAL INSTRUMENTS – CONTINUED

(ii) Financial risk management objectives and policies – continued

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate guaranteed notes and long term payable disclosed in Note 35 and 36 respectively. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

The Group was also exposed to cash flow interest rate risk in relation to pledged bank deposits, bank balances and variable-rate bank borrowings (see Note 34 for details of these borrowings). It is the Group policy to maintain certain borrowings at floating rate of interests and therefore the related fair value interest rate risk is considered limited.

The Group's sensitivity to cash flow interest rate risk is prepared assuming the amount of variable-rate borrowings at the end of the reporting period was outstanding for the whole year. A 25 (2014: 25) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	2015	2014
Reasonably possible change in interest rate	**25 basis points**	25 basis points

	2015 **RMB'000**	2014 RMB'000
Increase (decrease) in post-tax profit for the year		
as a result of increase in interest rate	**(618)**	(220)
as a result of decrease in interest rate	**618**	220

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Directors, which had built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows. As at 31 December 2015, the Group has available unutilized banking facilities of approximately RMB590,655,000 (2014: RMB721,541,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived based on the interest rate at the end of each reporting period.

41. FINANCIAL INSTRUMENTS – CONTINUED

(ii) Financial risk management objectives and policies – continued

Liquidity risk – continued

At 31 December 2015	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 year to 2 years RMB'000	2 years to 3 years RMB'000	3 years to 4 years RMB'000	4 years to 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade payables	–	122,244	176,030	204,136	–	–	–	–	–	502,410	502,410
Bank borrowings	5.25	179,494	3,728	114,777	69,880	79,880	29,880	12,090	–	489,729	443,551
Other payables	–	110,348	41,780	81,917	–	–	–	–	–	234,045	234,045
Dividend payable	–	6	–	–	–	–	–	–	–	6	6
2016 Guaranteed Notes	8.74	272,731	161,569	–	–	–	–	–	–	434,300	424,817
2018 Guaranteed Notes	9.45	–	8,523	8,523	17,046	210,433	–	–	–	244,525	191,358
Long term payable	1.20	300	300	600	1,200	1,200	1,200	1,200	112,000	118,000	100,000
		685,123	391,930	409,953	88,126	291,513	31,080	13,290	112,000	2,023,015	1,896,187

At 31 December 2014	Weighted average effective interest rate %	On demand or within 3 months RMB'000	3 months to 6 months RMB'000	6 months to 1 year RMB'000	1 year to 2 years RMB'000	2 years to 3 years RMB'000	3 years to 4 years RMB'000	4 years to 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade payables	–	143,071	166,673	224,189	–	–	–	–	–	533,933	533,933
Bank borrowings	5.70	207,904	28,774	116,319	–	–	–	–	–	352,997	346,757
Other payables	–	94,460	41,681	50,011	–	–	–	–	–	186,152	186,152
Dividend payable	–	6	–	–	–	–	–	–	–	6	6
2016 Guaranteed Notes	8.74	–	45,525	45,525	1,220,373	–	–	–	–	1,311,423	1,160,804
		445,441	282,653	436,044	1,220,373	–	–	–	–	2,384,511	2,227,652

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

41. FINANCIAL INSTRUMENTS – CONTINUED

(iii) Fair value measurements of financial instruments

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

(a) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	At 31 December 2015	At 31 December 2014			
Early redemption right of the 2016 Guaranteed Notes classified as embedded derivative financial asset in the consolidated statement of financial position.	–	Assets – RMB47,000	Level 3	The fair value of the embedded derivative financial asset is calculated based on option pricing model with key inputs which are the difference of the quoted market price of the 2016 Guaranteed Notes at US$100.92 extracted from Bloomberg (2014: US$100.32) and the fair value of liability component of the notes which was based on discounted cash flows using a discount rate of 6.43% as at 31 December 2015 (2014: 7.79%).	Discount rate of the liability component (Note)
Early redemption right of the 2018 Guaranteed Notes insignificant at initial recognition, therefore not separately accounted for.	–	N/A	Level 3	The fair value of the early redemption right is calculated based on option pricing model with key inputs which are the difference of the quoted price in an over-the-counter-market of the 2018 Guaranteed Notes at US$99.88 extracted from Bloomberg and the fair value of liability component of the notes which was based on discounted cash flows using a discount rate of 6.43% as at 31 December 2015.	Discount rate of the liability component (Note)

Note: An increase in the discount rate used in isolation would result in a decrease in the fair value measurement of the early redemption right, and vice versa.

41. FINANCIAL INSTRUMENTS – CONTINUED

(iii) Fair value measurements of financial instruments – continued

(b) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	31 December 2015		31 December 2014	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
The 2016 Guaranteed Notes – liability component	424,817	429,943	1,160,804	1,179,524
The 2018 Guaranteed Notes – liability component	191,358	194,564	–	–

The fair value of the financial liabilities included in the level 3 category above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

(c) Reconciliation of Level 3 fair value measurements

	Embedded derivative financial asset RMB'000
At 1 January 2014	3,954
Changes in fair value during the year	(3,907)
At 31 December 2014	47
Changes in fair value during the year	(47)
At 31 December 2015	–

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

42. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's assets were pledged to secure banking facilities granted to the Group. The aggregate carrying amount of the assets of the Group pledged at the end of the reporting period is as follows:

	2015 RMB'000	2014 RMB'000
Buildings	244,430	158,625
Land use rights	100,992	51,657
Inventories	59,955	66,346
Trade receivables	–	85,300
Bills receivable	4,780	48,600
Pledged bank deposits	78,307	118,894
	488,464	529,422

The amounts disclosed above includes the assets of the Group pledged at 31 December 2015 to obtain corporate guarantee from an independent third party for available banking facilities of RMB70,000,000 (2014: RMB38,959,000) granted to the Group. The aggregate carrying amount of these pledged assets are buildings amounted to approximately RMB26,976,000 (2014: RMB28,134,000) and land use right amounted to approximately RMB7,532,000 (2014: RMB7,767,000). In addition, the Group paid approximately RMB1,575,000 to the independent third party for the corporate guarantees provided (2014: RMB1,125,000).

43. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	15,000	22,084
In the second to fifth year inclusive	5,951	53,000
	20,951	75,084

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a lease term ranging from one to five years and rentals are fixed at the date of signing of lease agreements. The decrease in the commitment amount is mainly attributable to the disposal of a subsidiary in the current year.

44. CAPITAL COMMITMENTS

	2015 RMB'000	2014 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements – in respect of acquisition of property, plant and equipment	78,333	7,615

45. RETIREMENT BENEFITS SCHEME

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme which are calculated based on 20% of the employee's basic salaries during both years.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a MPF Scheme for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

46. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 16 June 2007 for the primary purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the following participants: (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives of the Company or substantial shareholders; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial shareholders. The Scheme will remain valid for a period of ten years commencing on 16 June 2007.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

An amount of HK$1 is payable by eligible employee to the Company on acceptance of the option as consideration for the grant. Options may be exercised at any time from 12 months to the fifth anniversary of the date of grant. The options are exercisable in three tranches at the first, second and third anniversary from date of grant respectively, each with one third of the total options granted. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 25 July 2014, the Company granted 102,626,000 share options to the Directors and certain employees of the Group (the "Grantees") to subscribe for a total of 102,626,000 ordinary shares of HK$0.01 each in the share capital of the Company under the share option scheme adopted by the Company on 16 June 2007, subject to acceptance by the Grantees.

46. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

Equity-settled share option scheme – continued

Among the share options granted above, 12,260,000 share options were granted to the Directors to subscribe for a total of 12,260,000 shares in the Company and 90,366,000 share options were granted to certain employees of the Group to subscribe 90,366,000 shares in the Company.

At 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 102,626,000 (2014: 102,626,000), representing 10% (2014: 10%) of the shares of the Company in issue at that date. There are no share options lapsed during the current and prior years.

The following tables disclose details of the Company's share options held by the Grantees and movements in such holdings under the share option scheme during the year:

					Number of options ('000)			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 31 December 2014	Granted during the year	Exercised/ lapsed during the year	Outstanding at 31 December 2015
Tranche 1	25 July 2014	25 July 2014 to 24 July 2015	25 July 2015 to 24 July 2018	HK$1.60	34,209	–	–	34,209
Tranche 2	25 July 2014	25 July 2014 to 24 July 2016	25 July 2016 to 24 July 2018	HK$1.60	34,209	–	–	34,209
Tranche 3	25 July 2014	25 July 2014 to 24 July 2017	25 July 2017 to 24 July 2018	HK$1.60	34,208	–	–	34,208
					102,626	–	–	102,626
Exercisable at the end of the year								34,209
Weighted average exercise price					HK$1.60	–	–	HK$1.60

46. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

Equity-settled share option scheme – continued

The following tables disclose details of the Company's share options held by the Grantees and movements in such holdings under the share option scheme during prior year:

					Number of options ('000)			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 31 December 2013	Granted during the year	Exercised/ lapsed during the year	Outstanding at 31 December 2014
Tranche 1	25 July 2014	25 July 2014 to 24 July 2015	25 July 2015 to 24 July 2018	HK$1.60	–	34,209	–	34,209
Tranche 2	25 July 2014	25 July 2014 to 24 July 2016	25 July 2016 to 24 July 2018	HK$1.60	–	34,209	–	34,209
Tranche 3	25 July 2014	25 July 2014 to 24 July 2017	25 July 2017 to 24 July 2018	HK$1.60	–	34,208	–	34,208
					–	102,626	–	102,626
Exercisable at the end of the year								–
Weighted average exercise price					–	HK$1.60	–	HK$1.60

Exercise Price of the share options granted is HK$1.60 per share, which represents the highest of (i) the closing price per Share of HK$1.60 on the date of grant of the Share Options, i.e. 25 July 2014; (ii) the average closing price of HK$1.56 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Share, being HK$0.01.

During the current year, the Group recognized share-based expenses of RMB3,176,000 (2014: 1,735,000). The total fair value of the options calculated by using the binomial model was HK$8,880,000 (equivalent to approximately RMB7,005,000).

46. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

Equity-settled share option scheme – continued

The following assumptions were used to calculate the fair value of share options:

Exercise Price	HK$1.60
Assumed Time to Maturity (Contractual Option Life)	4 years
Risk-free Interest Rate	1.18%
Annualized Volatility	45.88%
Expected Dividend Yield (Annualized)	0.92%
Post-Vesting Exit Rate of Employees	8.37%

Expected volatility was determined by using the historical volatility of the Company over the most recent period commensurate with the expected life of the share options and reflects the assumption that the historical volatility is indicative of future trends.

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimation. Changes in variables and assumptions may result in changes in the fair value of the options.

47. RELATED PARTY TRANSACTIONS

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

	2015 **RMB'000**	2014 RMB'000
Salaries and other benefits	**18,590**	21,150
Retirement benefit scheme contributions	**604**	460
Equity-settled share-based payments	**658**	333
	19,852	21,943

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

	2015 RMB'000	2014 RMB'000
Non-current assets		
Investment in subsidiaries	310,944	326,489
Amounts due from subsidiaries	293,837	884,010
Property, plant and equipment	2	2
Embedded derivative financial asset	–	47
	604,783	1,210,548
Current assets		
Other receivables and prepayments	354	346
Dividends receivable	9,608	290,636
Amounts due from subsidiaries	510,750	393,411
Bank balances and cash	5,639	1,970
	526,351	686,363
Current liabilities		
Other payables and accruals	6,301	18,497
Amounts due to subsidiaries	7,674	7,226
Dividend payable	6	6
Guaranteed notes – due within one year	424,817	–
	438,798	25,729
Net current assets	87,553	660,634
Total assets less current liabilities	692,336	1,871,182
Capital and reserves		
Share capital	9,548	9,548
Share premium and reserves	682,788	700,830
Total equity	692,336	710,378
Non-current liabilities		
Guaranteed notes – due after one year	–	1,160,804
	692,336	1,871,182

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

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 2014	9,548	648,367	–	31,386	689,301
Profit and other comprehensive income for the year	–	–	–	19,342	19,342
Recognition of share-based payments (Note 46)	–	–	1,735	–	1,735
At 31 December 2014	9,548	648,367	1,735	50,728	710,378
Loss and other comprehensive income for the year	–	–	–	(21,218)	(21,218)
Recognition of share-based payments (Note 46)	–	–	3,176	–	3,176
At 31 December 2015	9,548	648,367	4,911	29,510	692,336

49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2015 and 2014 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2015 %	2014 %	Principal activities
Tricon International Group Inc. ("Tricon")	BVI	Ordinary shares US$1	100	100	Investment holding
Trisen International Limited ("Trisen")	BVI	Ordinary shares US$5,000	100	100	Investment holding
Cowin Global Investments China Limited	BVI	Ordinary shares US$1	100	100	Investment holding
Inovex Corporation	USA	Ordinary shares US$7,300,001	100	100	Business development and provision of engineering services in overseas markets
Tri-sen Systems Corporation	USA	Ordinary shares US$7,003,487	100	100	Business development and provision of industrial turbo machinery process controls
日本イノベックス株式会社 Tri-sen Systems Japan Corporation	Japan	Ordinary shares JPY100,000,000	100	100	Business development and provision of control equipment
Consen Automation (Singapore) Pte. Limited	Singapore	Ordinary shares SG$1,000,000	100	100	Overseas business development and provision of engineering services
Trisen Asia Control Pte. Limited	Singapore	Ordinary shares SG$1,500,000	70	70	Distribution, training and engineering of instrumentation and control products

49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY – CONTINUED

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2015 %	2014 %	Principal activities
北京康吉森自動化設備技術有限責任公司 Beijing Consen (Note i and ii)	PRC	Registered capital RMB230,000,000	**100**	100	Provision of systems design and development, trading of equipment safety and critical control systems
北京康吉森交通技術有限公司 Beijing Transportation (Note i)	PRC	Registered capital RMB70,000,000	**100**	100	Design, development and sales of industrial railway signalling and interlocking system
北京創康自動化工程有限公司 Beijing Tri-control Automation Company Limited (Note i and ii)	PRC	Registered capital US$1,000,000	**100**	100	Provision of systems design and development, trading of equipment and engineering and maintenance services of safety and critical control systems
北京交大微聯科技有限公司 Beijing Jiaoda Microunion (Note i)	PRC	Registered capital RMB100,000,000	**–**	76.7	Design, development and sales of railway interlocking system
北京恒優聯科技有限公司 Beijing Heng Youlian Technology Company Limited (Note i and iii) ("Heng Youlian")	PRC	Registered capital RMB20,000,000	**–**	76.7	Imports and exports of goods and technologyas well as an agent of imports and exports
北京天竺興業軟件技術有限公司 Beijing Software (Note i and ii)	PRC	Registered capital US$40,000,000	**100**	100	Research and development as well as software programming and licensing
北京力博遠投資管理有限公司 Beijing Liboyuan Investment Management Company Limited (Note i and ii)	PRC	Registered capital RMB10,000,000	**100**	100	Investment holding
北京恒通方大新材料技術有限公司 Beijing Hengtong Fangda New Materials and Technology Company Limited (Note i)	PRC	Registered capital RMB10,000,000	**100**	100	Design, development and sales of construction material for railway and highroad, as well as technology services
北京康吉森油氣工程技術有限公司 Beijing Consen Oil and Gas Engineering Company Limited (Note i)	PRC	Registered capital RMB50,000,000	**100**	100	Trading of equipment of safety and critical control systems as well as technology service
北京康吉森過程控制技術有限公司 Consen Process Control Technology Company Limited (Note i)	PRC	Registered capital RMB20,000,000	**100**	100	Development and trading of petrochemical automation control system
北京中自化物資裝備技術有限公司 Beijing CAG Materials and Equipment Technology Company Limited (Note i)	PRC	Registered capital RMB50,000,000	**100**	100	Trading of equipment of safety and critical control systems
北京康吉森儀器儀錶有限公司 Beijing Consen Instrument Company Limited (Note i)	PRC	Registered capital RMB1,000,000	**100**	100	Development and trading of instrument

49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY – CONTINUED

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2015 %	2014 %	Principal activities
北京康吉森技術有限公司 Beijing Consen Technology Company Limited (Note i) (Formerly known as "Beijing Shangfang Yunshui Software Technology Company Limited", 北京上方雲水軟件技術有限公司)	PRC	Registered capital RMB10,000,000	100	100	Software development and integrated circuit design, as well as technology services
北京恒泰日新軟件技術有限公司 Beijing Hengtai (Note i)	PRC	Registered capital RMB10,000,000	100	100	Software development and integrated circuit design
北京康吉森節能環保技術有限公司 Beijing Consen Energy and Environmental Technology Company Limited (Note i)	PRC	Registered capital RMB20,000,000	100	–	Provision of energy-saving and environmental technology services
北京海澱中京工程設計軟件技術有限公司 Zhongjing (Note i)	PRC	Registered capital RMB50,000,000	70	70	Engineering design and consulting services
南京華士電子科技有限公司 Nanjing Electronic Scientific (Note i)	PRC	Registered capital RMB21,203,265	51	51	Design, production and sale of railway traction control and auxiliary electricity supply systems
南京華士電源設備有限公司 Nanjing Power Equipment (Note i)	PRC	Registered capital RMB46,800,000	51	51	Design, production and sale of railway traction control and auxiliary electricity supply systems
南京華航軟件科技有限公司 Nanjing Huahang Software Technology Company Limited (Note i and iv) ("Nanjing Huahang Software")	PRC	Registered capital RMB500,000	51	–	Software programming and technology services
吳忠儀錶有限責任公司 Wuzhong (Note i)	PRC	Registered capital RMB320,000,000	100	100	Manufacture of industrial control valves
寧夏朗盛精密製造技術有限公司 Ningxia Langsheng Foundry Company Limited (Note i)	PRC	Registered capital RMB100,000,000	100	100	Manufacture of steel-casting
寧夏吳忠儀錶上海有限公司 Wuzhong Instrument (Shanghai) Company Limited (Note i)	PRC	Registered capital RMB10,000,000	100	100	Manufacture of industrial control valves
北京吳忠儀錶銷售有限公司 Wuzhong Sales (Beijing) Company Limited (Note i)	PRC	Registered capital RMB10,000,000	100	100	Sales of industrial control valves
寧夏菲麥森流程控制技術有限公司 Ningxia Fei Mai Sen (Note i)	PRC	Registered capital RMB5,000,000	100	100	Software development and design of process control products

49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY – CONTINUED

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group as at 31 December 2015 %	2014 %	Principal activities
吳忠儀錶(銀川)工程技術服務有限公司 Wuzhong Engineering Services (Yinchuan) Company Limited (Note i)	PRC	Registered capital RMB20,000,000	100	100	Provision of engineering services
吳忠儀錶產業基地開發有限公司 Wuzhong Instrument Industrial Base Development Company Limited (Note i)	PRC	Registered capital RMB100,000,000	100	–	Manufacture of industrial control valves, infrastructure activities as well as of development and sale of real estate
北京中京實華新能源科技有限公司 Beijing Zhongjing Shihua New Energy Technology Company Limited (Note i) ("Zhongjing Shihua")	PRC	Registered capital RMB72,550,000	51	51	Production of biodiesel fuel and related technology services
北京中京征和環保服務有限公司 Beijing Zhongjing Zhenghe Environmental Services Company Limited (Note i and v) ("Zhongjing Zhenghe")	PRC	Registered capital RMB10,000,000	49.5	49.5	Collection and transportation of biodiesel base oil materials
拉薩經濟技術開發區康吉森投資有限公司 Lhasa Consen Investment Company Limited (Note i)	PRC	Registered capital RMB1,000,000	100	100	Investment management and trading, as well as technology service
西藏康吉森電子科技有限公司 Tibet Consen Electronic Technology Company Limited (Note i)	PRC	Registered capital RMB282,000,000	100	–	Design, development and sales of instrumentation and control products, as well as technology services
Tri-control	Hong Kong	Ordinary shares HK$10,000,000	100	100	Trading of automation products
康吉森國際(香港)有限公司 Consen International (Hong Kong) Limited	Hong Kong	Ordinary shares HK$20,000,000	100	100	Trading of automation products
冠東資源有限公司 Crown East Resources Limited	Hong Kong	Ordinary shares US$44,600,000	100	–	Trading of automation products
優致投資有限公司 Wind Time Investment Limited	Hong Kong	Ordinary shares US$37,400,000	100	–	Trading of automation products

49. PARTICULAR OF SUBSIDIARIES OF THE COMPANY – CONTINUED

Notes:

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

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

(iii) Heng Youlian has been Beijing Jiaoda Microunion's wholly-owned subsidiary since incorporation, which has been disposed during the current year (Note 12).

(iv) Incorporated by Nanjing Electronic Scientific, 100% of the registered capital of Nanjing Huahang Software is directly held and controlled by Nanjing Electronic Scientific.

(v) Incorporated by Zhongjing Shihua and a non-controlling shareholder, 97.06% of the registered capital of Zhongjing Zhenghe is directly held and controlled by Zhongjing Shihua.

All of the above subsidiaries, except for Tricon and Trisen, are indirectly held by the Company.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non–controlling interests	
		2015	2014	**2015**	2014	**2015**	2014
Beijing Jiaoda Microunion	Beijing	**–**	23.3%	**3,571**	8,372	**–**	133,110
Individually immaterial subsidiaries with non-controlling interests						**148,171**	192,886
						148,171	325,996

During the current and prior years, the only subsidiary of the Company that has material non-controlling interests is Beijing Jiaoda Microunion. The financial information in respect of Beijing Jiaoda Microunion has been included in "discontinued operations" as set out in Note 12.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 (N1) RMB'000	**2015 (N1) RMB'000**
Revenue	1,981,015	2,210,754	2,308,801	1,918,510	**1,640,983**
Profit (loss) before tax	296,804	162,753	122,287	38,662	**(351,316)**
Income tax expense	53,156	34,341	37,338	27,850	**12,203**
Profit (loss) attributable to equity holder of the parent	195,774	84,583	73,574	7,711	**(318,804)**

(N1): excluding the discontinued operations

ASSETS AND LIABILITIES RESULTS

	At 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015 RMB'000**
Non-current assets	1,087,111	1,252,288	1,324,431	1,376,825	**995,343**
Current assets	2,967,562	3,424,335	3,453,309	3,322,379	**3,092,894**
Current liabilities	(744,844)	(1,298,132)	(1,345,108)	(1,214,177)	**(1,526,308)**
Net current assets	2,222,718	2,126,203	2,108,201	2,108,202	**1,566,586**
Total assets less current liabilities	3,309,829	3,378,491	3,432,632	3,485,027	**2,561,929**

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. Zhou Zheng Qiang
Mr. Duan Min
Mr. Chen Yong
Mr. Ma Yu Shan
Ms Wang Yan Mei
Mr. Tian Lei
Mr. Wang Jing Hua
Mr. Lu Ming Yi
Mr. William Erik Barkovitz
Ms Dong Yan
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STOCK CODE

Hong Kong Stock Exchange 569

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PRINCIPAL BANKERS

Hong Kong:
CTBC Bank Co., Ltd, Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited

PRC:
Agricultural Bank of China
Bank of Beijing
Bank of Communications
China Construction Bank
China Guangfa Bank
China Merchants Bank
Industrial and Commercial Bank of China
Ping An Bank
Shanghai Pudong Development 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