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***





**2016**
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") specialise 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 provider in China.

**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 2016.

During the year under review, the continuing adjustments in the economy in China and the sustained sluggishness in oil prices for most of the time dampened demand from the petrochemical and coal chemical industries.

2016 marks the beginning for the "13th Five-Year Plan". The Government has promulgated the "Middle-to-Long Term Railway Network Plan (2016-2025) (《中長期鐵路網規劃》(2016-2025)). The scale of investment in China's railway construction remained stable. The Group continued to win contracts from customers to provide traction systems in an extremely competitive market.

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 persisted in implementation of a stringent budgetary planning and control system and cost-control measures to lower its sales and marketing costs as well as operational costs. The Group also followed through its internal restructuring programme to further cut down the non-profit making business units and to retrench redundant staff in order to enhance the Group's overall operational efficiency and to maintain its competitiveness.

For the year ended 31 December 2016, revenue of the Group from continuing operations amounted to RMB1,195.3 million, a decrease of 27.2% as compared to the same period in 2015.

Revenue generated from petrochemical segment amounted to RMB1,061.2 million, a decrease of 26.8% as compared to the same period in 2015. Revenue generated from railway segment amounted to RMB134.1 million, a decrease of 29.7% as compared to the same period in 2015.

The Group recorded loss attributable to shareholders amounting to RMB390.8 million for the year ended 31 December 2016 (2015: Loss of RMB105.1 million).

Loss per share for the year ended 31 December 2016 was RMB38.08 cents (2015: Loss per share at RMB10.24 cents, including both continuing and discontinued operations). The Board has resolved not to recommend distribution of a final dividend (2015: Nil) in respect of the year.

## FOCUSED ON PROFITABILITY AND OPERATING CASHFLOW

In 2016, the Group persisted in streamlining and enhancing its operations. The Group followed through implementation of stringent budgetary planning, control and cost-control measures to lower its sales and marketing costs as well as operational costs.

The Group pursued its internal restructuring to further cut down the non-profit making business units, to retrench redundant staff 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 2016, the Group's safety and critical control related business experienced further downwards adjustments in scale. Yet it still maintained its market share and leading market position 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 2016 from renowned petrochemical and coal-chemical related companies, including CNOOC and Yanchang Petroleum.

With persistent efforts in research and development, production, sales and marketing, and internal operation, the Group's control valve business protected its market position in 2016. 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 2016, the Group's feasibility study report on underwater control valve, a major science and technology project under the provincial 13th Five-Year Program of Ningxia, passed the relevant assessments. The Ningxia "Industrial Cloud" Innovation Service Project of Ministry of Industry and Information Technology in which the Group participated, also passed relevant inspections. The Group's control valve business had been named "Smart Production Pilot Showcase Enterprise" by the Ministry of Industry and Information Technology, indicating the Group's information technology application had reached leading standards in China.

## OPTIMISING PRODUCT MIX AND TAPPING OPPORTUNITIES FROM LOCALISATION

According to statistics released by China Railway Corporation, ("CRC", formerly known as The Ministry of Railways) in 2016, national railway fixed asset investments amounted to RMB801.5 billion, and the new lines put into use amounted to 3,281 kilometers. The scale of investment in China's railway construction remained stable.

The Group is one of the five qualified suppliers of electrified equipment recognised by the CRC and one of the qualified suppliers for the metro localisation electrified equipment market. In 2016, the Group's traction and auxiliary power supply system related business experienced a significant decline primarily due to the delay of Guangzhou Subway Line Number 9 in accordance with the owner's latest schedule.

Regarding operation, the Nanjing Subway Line Number 1 traction system project undertaken by the Group as a general contractor had been fully delivered in 2016. With its proven track record, the Group was appointed as a general contractor to provide traction systems for the Nanjing Subway Line Number 2 project in 2016.

## PROSPECTS AND OUTLOOK

Looking ahead, the development of the petrochemical and coal chemical industries still face serious challenges as global oil prices, while having recovered from their lows, have yet to be on their way for sustained rebound in the medium term, which dampening demand for the industry. Both the petrochemical and coal chemical industries will continue to see deepened localisation of critical equipment.

In 2016, the Ministry of Industry and Information Technology of China issued the "Petrochemical and Chemical Industry Development Plan (2016-2020)" (the "Plan") to guide the petrochemical and chemical industry's development for the 13th Five-Year period covering from 2016 to 2020. The Plan gives priority to the following areas during the Five-Year period: promoting innovation; urging traditional industries to transform and upgrade; developing new chemical materials; promoting smart manufacturing; strengthening the safety of hazardous chemicals; regulating and improving industrial parks/zones; promoting the construction of major projects; and expanding international cooperation. A range of targets in China's 13th Five-Year Plan show that the Chinese Government aims at deepening the long-term transition towards low-carbon and clean energy sources and the growth of demand for high-end petrochemical and chemical products which are green, safe and cost-effective will exceed traditional industries.

The Group will further enhance the overall capability of Wuzhong Instrument Company Limited (吳忠儀表有限公司)("Wuzhong Instrument") in research and development, sales and marketing, production capability, as well as internal operation efficiency. The Group will look for opportunities to secure another mega project so as to stabilise the revenue base. Furthermore, leveraging on the localisation policies of industrial products in China, the Group will put tremendous effort to market its high-end control valves to replace the first-tier imported ones. The Group's control valve engineering and maintenance services team will endeavor to 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 will roll over programme to retrench redundant staff in order to remain competitive.

At the same time, 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 industries 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. Besides, the Group has excellent promotion in oil-refining and ethylene revamping projects. The Group will also make efforts to boost profits by optimizing its product mix. The Group seeks to extend the applications of safety and critical control systems to upstream oil and gas fields as well as to other industries, particularly industries related to energy efficiency and environment protection.

The Group has rolled out an internal restructuring programme to dispose certain non-profit making business units when such opportunity arises. In particular, for the railway segment, the Group considered that business of the traction and auxiliary power supply systems overly competitive and it would be difficult to improve or sustain its profitability.

In addition, in order to further enhance growth potential of the Group and maximise shareholders' value in the long run, the Group has started to review and will continue to explore investment and business opportunities in new business segment(s) that would augment or complement the Group's existing businesses, such as the healthcare business.

Leveraging on 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
23 March 2017

## OPERATION AND BUSINESS REVIEW

In 2016, 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 2016, 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 2016, the Group's safety and critical control related business experienced a decline. Yet it still maintained its market share and leading position in the market against a backdrop of weak economic growth in China and a weak oil price environment that had dampened demand from petrochemical and coal chemical industries. As at 31 December 2016, the Group successfully completed and delivered approximately 260 sets of systems, bringing the cumulative delivered system count to approximately 3,982 sets. The Group continued to secure large-scale projects in 2016 from renowned petrochemical and coal chemical related companies, including CNOOC and Yanchang Petroleum, etc. In addition, as a qualified vender for GE Oil & Gas, MAN Turbo, Hitachi, Air Product, Air Liquide, Siemens, Atlas Copco, Mitsubishi, Dresser Rand and Elliot, the Group continued to win new contracts in 2016 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 still maintained its market positioning in 2016. 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. 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 2016, the Group's feasibility study report on underwater control valve, a major science and technology project under the provincial 13th Five-Year Program of Ningxia, passed the relevant assessments. The Ningxia "Industrial Cloud" Innovation Service Project of Ministry of Industry and Information Technology in which the Group participated, also passed relevant inspections. The Group's control valve business had been named "Smart Production Pilot Showcase Enterprise" by the Ministry of Industry and Information Technology, indicating that the Group's information technology application had reached leading standards in China.

### RAILWAY INDUSTRY

The Group's traction and auxiliary power supply system related business experienced a significant decline primarily due to the delay of Guangzhou Subway Line Number 9 in accordance with the owner's latest schedule. The Group continued to develop its proprietary products to explore opportunities in new markets. The Group continued to develop localised proprietary traction systems for urban rail transit. In addition, its self-developed proprietary traction systems passed the inspection for the airport line of Beijing airport. However, the Group considered that the competition in traction and auxiliary power supply systems market is extremely competitive and it would be difficult to improve or sustain profitability.

Regarding operation, Nanjing Subway Line Number 1 traction system projects undertaken by the Group had been fully delivered in 2016. With the proven track record, the Group won the contract to provide traction systems for Nanjing Subway Line Number 2 project in 2016.

## FINANCIAL REVIEW

## CONTINUING OPERATIONS

### REVENUE

For the year ended 31 December 2016, revenue of the Group decreased by 27.2% to RMB1,195.3 million (2015: RMB1,641.0 million).

Revenue generated from the petrochemical segment shrank 26.8% to RMB1,061.2 million (2015: RMB1,450.2 million), whereas revenue generated from the railway segment decreased by 29.7% to RMB134.1 million (2015: RMB190.8 million) for the year ended 31 December 2016.

### TURNOVER ANALYSIS BY OPERATING SEGMENT

| | **For the year ended 31 December** | | | | |
|---|---|---|---|---|---|
| | **2016** | | 2015 | | Change |
| | **(RMB' million)** | **%** | (RMB' million) | % | (%) |
| Petrochemical | **1,061.2** | **88.8** | 1,450.2 | 88.4 | -26.8 |
| Railway | **134.1** | **11.2** | 190.8 | 11.6 | -29.7 |
| | **1,195.3** | **100.0** | 1,641.0 | 100.0 | -27.2 |

### TURNOVER ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

| | **Year ended 31 December** | | | | |
|---|---|---|---|---|---|
| | **2016** | | 2015 | | Change |
| | **(RMB million)** | **Proportion (%)** | (RMB million) | Proportion (%) | (%) |
| System sales and engineering design services | | | | | |
| – Petrochemical | | | | | |
| – safety systems | **484.1** | **40.5** | 548.1 | 33.4 | -11.7 |
| – control valves (Note) | **390.8** | **32.7** | 700.6 | 42.7 | -44.2 |
| – Railway | | | | | |
| – Traction systems and others | **131.2** | **11.0** | 183.1 | 11.1 | -28.3 |
| Sub-total | **1,006.1** | **84.2** | 1,431.8 | 87.2 | -29.7 |
| Provision of engineering and maintenance services | **119.6** | **10.0** | 183.5 | 11.2 | -34.8 |
| Distribution of equipment | **69.6** | **5.8** | 25.7 | 1.6 | +170.8 |
| Total | **1,195.3** | **100.0** | 1,641.0 | 100.0 | -27.2 |

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 2016, revenue generated from system sales and engineering design services in relation to the petrochemical industries decreased by 11.7% to RMB484.1 million (2015: RMB548.1 million). The decrease was mainly due to slower overall demand stemming from the slowdown in the overall economy in China and the declines in crude oil price. Nevertheless, the Group still maintained its market share and remained as the largest integrated solution provider of safety and critical control systems in the petrochemical and coal chemical industries. The Group will endeavour to extend its application of its safety and critical to upstream oil and gas fields as well as its to energy saving and environmental protection industries. Furthermore, the Group believes that its engineering design services business would rebound as it is anticipated that given its good track record it could secure about two sizeable engineering design projects in the forthcoming two years.

### CONTROL VALVE

The Group's control valve business shrank by 44.2% to RMB390.8 million (2015: RMB700.6 million). It was due to: (i) plant relocation in the last quarter of 2016 such that it affected its plant utilisation and order winning; (ii) the completion of the mega project namely Shenhua Ningmei indirect coal liquefaction project in 2015 but no such big project won and delivery in 2016; and (iii) overall economy slowdown in China and declines in crude oil price.

The Group believes that with the completion of the plant relocation, its production capacity has increased tremendously while at the same time the research and development projects brought about new and enhanced control valve products so as to boost the relevant revenue.

## SYSTEM SALES TO RAILWAY INDUSTRIES

### TRACTION SYSTEM AND OTHERS

Revenue generated from system sales in relation to traction system shrank by 28.3% to RMB131.2 million (2015: RMB183.1 million). This was primarily due to the delay of Guangzhou Subway Line Number 9 in accordance with the owner's latest schedule.

### PROVISION OF ENGINEERING AND MAINTENANCE SERVICES

For the year ended 31 December 2016, revenue generated from provision of engineering and maintenance services decreased by 34.8% to RMB119.6 million (2015: RMB183.5 million). 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. As such, the Group endeavours to put more marketing and sales effort to secure more business from the current installation base.

### DISTRIBUTION OF EQUIPMENT

For the year ended 31 December 2016, revenue in relation to equipment distribution amounted to RMB69.6 million (2015: RMB25.7 million).

In terms of types of goods and services rendered, 84.2% (2015: 87.3%) of the Group's revenue was generated from system sales, 10.0% (2015: 11.2%) from the provision of engineering and maintenance services and 5.8% (2015: 1.6%) from equipment distribution.

In addition, in terms of operating segment, 88.8% (2015: 88.4%) of the Group's revenue was generated from the petrochemical segment and 11.2% (2015: 11.6%) from the railway segment.

### GROSS PROFIT

Gross profit for the year ended 31 December 2016 amounted to RMB136.6 million (2015: RMB497.8 million), representing a decrease by 72.6% as compared with that of the previous year.

The overall gross profit margin for the year ended 31 December 2016 shrank significantly by 18.9% points to 11.4% (2015: 30.3%).

## GROSS PROFIT ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2016 (%)** | 2015 (%) | Change (%) Point |
| System sales and Engineering design services | | | |
| – Petrochemical | | | |
| – safety system | **4.1** | 27.8 | -23.7 |
| – control valve | **16.7** | 28.7 | -12.0 |
| – Railway | | | |
| – Traction system and others | **10.3** | 23.4 | -13.1 |
| Sub-total | **9.8** | 27.7 | -17.9 |
| Provision of engineering and maintenance services | **24.7** | 51.4 | -26.7 |
| Distribution of equipment | **12.4** | 28.0 | -15.6 |
| Total | **11.4** | 30.3 | -18.9 |

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

### GROSS PROFIT MARGIN OF SYSTEM SALES AND ENGINEERING DESIGN SERVICES

The gross profit margin of safety and critical control system and engineering design services decreased significantly by 23.7% points to 4.1% (2015: 27.8%) mainly due to a lower output level and hence weaker economy of scales resulting from keen market competition.

### GROSS PROFIT MARGIN OF CONTROL VALVE

The gross profit margin decreased by 12.0% points to 16.7% (2015: 28.7%) due to keen price competition in the market as well as the plant relocation such that more fixed costs had been incurred.

## 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 13.1% points to 10.3% (2015: 23.4%) due to lower level of output and loss of economies of scales.

### GROSS PROFIT MARGIN OF THE PROVISION OF ENGINEERING AND MAINTENANCE SERVICES

The gross profit margin of the provision of engineering and maintenance services recorded at 24.7% (2015: 51.4%).

### GROSS PROFIT MARGIN OF DISTRIBUTION OF EQUIPMENT

For the year ended 31 December 2016, the gross profit margin of the equipment distribution business narrowed by 15.6% points to 12.4% (2015: 28.0%).

### OTHER INCOME

For the year ended 31 December 2016, other income increased by RMB36.5 million to RMB74.8 million (2015: RMB38.3 million). This was primarily due to the recognition of the net relocation compensation amounted to RMB43.7 million in connection with the Wuzhong Instrument's plant relocation for the control valve business.

### OTHER GAINS AND LOSSES

For the year ended 31 December 2016, other losses amounted to RMB157.4 million (2015: other losses of RMB349.1 million). This was primarily comprising (i) allowance on bad and doubtful debts of RMB111.6 million; and (ii) impairment losses recognised on financial assets of RMB23.0 million (2015: mainly attributable to: (i) the significant impairment losses booked against the goodwill of RMB60.1 million; (ii) intangible assets namely licenses, development expenditures as well as certain non-patented technologies of RMB119.1 million; and (iii) allowance on bad and doubtful debts of RMB124.5 million).

## SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the year ended 31 December 2016 decreased by 20.4% to RMB117.5 million (2015: RMB147.7 million). Such decrease was mainly attributable to: (i) lower salaries and bonus due to retrenching redundant staff and cutting performance bonus; (ii) lower entertainment and travelling expenses owing to slowing business activities; and (iii) savings on office expenses.

Selling and distribution expenses as a percentage of the Group's full year revenue was 9.8% (2015: 9.0%).

## ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2016 amounted to RMB216.5 million (2015: RMB219.5 million), representing a decrease of 1.4% year-on-year. The decrease was due to lower performance bonus.

Administrative expenses as a percentage of the Group's full year revenue was 18.1% (2015: 13.4%).

## RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the year ended 31 December 2016 were RMB86.2 million (2015: RMB76.1 million). The research and development projects undertaken were mainly related to development of: (i) high-end control valves in response to the preferential policies regarding localisation enacted by the Chinese Government; (ii) turbine machinery control system business for the upstream oil and gas pipeline; as well as (iii) the traction systems and auxiliary electricity supply related products for trams.

## FINANCE COSTS

Finance costs for the year ended 31 December 2016 decreased by 46.0% to RMB50.8 million (2015: RMB94.0 million). The decrease was mainly due to the early redemption and repayment of the guaranteed notes due April 2016 ("2016 Guaranteed Notes").

## INCOME TAX EXPENSES

Income tax credit for the year ended 31 December 2016 amounted to RMB7.9 million (2015: Income tax expense of RMB12.2 million).

## LOSS FOR THE YEAR (FROM CONTINUING OPERATIONS)

As a result of the foregoing, the Group's continuing operations recorded RMB414.9 million in loss for the year ended 31 December 2016 (2015: RMB363.5 million).

## DISCONTINUED OPERATIONS

The discontinued operations for the year ended 31 December 2015 was related to the disposal of 76.7% equity interest in Beijing Jiaoda Microunion Technology Company Limited.

## LOSS FOR THE YEAR (FROM CONTINUING AND DISCONTINUED OPERATIONS)

The Group recorded loss amounting to RMB414.9 million for the year ended 31 December 2016 (2015: RMB146.3 million).

## LOSS PER SHARE

Loss per share for the year ended 31 December 2016 was RMB38.08 cents (2015: RMB10.24 cents, from both continuing and discontinued operations, 31.06 cents from continuing operations).

## DIVIDEND

The Board had resolved not to recommend distribution of a final dividend (2015: Nil) in respect of the year.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net cash generated from the Group's operating activities for the year ended 31 December 2016 amounted to RMB119.7 million (2015: RMB98.3 million). The Group was still able to generate significant positive operating cashflow due to (i) the decrease in inventories; and (ii) the decrease in trade and bills receivables as well as the decrease in other receivables.

Net cash used in investing activities of the Group for the year ended 31 December 2016 amounted to RMB249.2 million (2015: net cash generated from investing activities amounted to RMB613.2 million). The significant investment of RMB407.4 million was mainly related to the construction in progress and prepaid lease payment in connection with the Wuzhong Instrument's new plant construction for the control valve business.

Net cash used in financing activities for the year ended 31 December 2016 decreased by RMB211.5 million to RMB296.1 million (2015: RMB507.6 million). This was mainly attributable to the repayment of the 2016 Guaranteed Notes (including the early redemption premium) amounted to RMB434.3 million.

As at 31 December 2016, cash and bank balances (including pledged bank deposits of RMB62.3 million) amounted to RMB230.9 million (31 December 2015: RMB679.5 million (including pledged bank deposits of RMB78.3 million)).

### GEARING POSITION

The net gearing (total borrowings less cash over total equity) ratio was at 51.1% as at 31 December 2016 (31 December 2015: at 23.2%). As at 31 December 2016, the total borrowings of the Group amounted to RMB1,003.3 million (31 December 2015: RMB1,125.5 million), of which the guaranteed notes due 2018 amounted to US$30 million (equivalent to approximately RMB205.6 million) and corporate bonds due 2019 amounted to RMB195.7 million.

### SIGNIFICANT INVESTMENTS, MERGERS AND ACQUISITIONS

For the year ended 31 December 2016, the Group spent RMB428.8 million related to the construction in progress and prepaid lease payment and contracted RMB134.5 million mainly on the plant and equipment for the control valve business.

### CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no material contingent liabilities.

## FUTURE OUTLOOK

The Group has undertaken a detailed strategic review of the Group for the purpose of formulating business plans and strategies for the future business development of the Group and determining what changes, if any, would be appropriate or desirable in order to optimise the business activities of the Group. The Group also rolled out an internal restructuring programme to dispose of the non-profit making business units.

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 capability, sales and marketing, and internal operational efficiency. To capture opportunities emerged from localisation 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 considered that the traction and auxiliary power supply systems business overly competitive and it would be difficult to improve or sustain profitability. As such, it is the intention of the Group to dispose this business unit when such opportunity arises.

In addition, in order to further enhance growth potential of the Group and maximise shareholders' value, the Group has started to review and consider from time to time investment and business opportunities in new business segment(s) that would augment or complement the Group's existing businesses, such as the healthcare business.

In the year of 2016, 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
- 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

In 2016, the Group has hosted site visits for investors in Hong Kong and Beijing during the period, during which visitors could witness the Group's operation with their own eyes. The Group's top management and IR team meet with investors, so as to inform and update them about the Group's latest developments.

In 2017 and onwards, the Group will continuously enhance investor relations. The senior management of the Group will consistently support investor relations, and the Group will persistently make transparent disclosures.

# DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

## DIRECTORS

### EXECUTIVE DIRECTORS

**Mr. Xuan Rui Guo (宣瑞國)**, aged 48, 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 Company Limited. (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 Limited. In Yunnan, China; Manager of Beijing Invention Biology Company Limited (北京瑞寧生物技術開發有限責任公司) and General Manager of Beijing Consen Automation Control Company Limited (北京康吉森自動化設備技術有限責任公司) ("Beijing Consen"), etc.

**Mr. Wang Chuen Sheng (王春生)**, aged 57, is an Executive Director since August 2016. Mr. Wang obtained his Bachelor of Engineering degree in hydraulic and offshore oil construction engineering from Tianjin University (天津大學) in 1981. From 1982 to 1985, he served as a teaching assistant in Tianjin University, and subsequently joined the Shenzhen branch office of Eastman Christensen (subsequently acquired by Baker Hughes Incorporated) in 1985 and worked as a technical manager till 1987. Mr. Wang obtained his Master of Engineering in petroleum engineering from the University of Alaska Fairbanks in 1990, and subsequently joined Sperry-Sun Drilling Services (subsequently acquired by Halliborton Company) in the United States of America and served as a technical manager till 1997. Mr. Wang was the chairman of Hayden Inc. in the United States of America from 1997 to 2000, and has been the chairman of Beijing Haidun New Technology Company Limited (北京海頓新科技術有限公司) since 2000.

### INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr. Wang Tai Wen (王泰文)**, aged 70, 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 Company Limited (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 (中國鐵路工程總公司) 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. Zhang Xin Zhi (張新志)**, aged 73, is an Independent Non-executive Director since August 2016. Mr. Zhang is a senior engineer and has more than 40 years of experience in the petrochemical industry. Mr. Zhang graduated from the University of Science and Technology of China in 1967. From 1967 to 1989, he served in various positions in the No. 3 Fushun Petroleum Factory (撫順石油三廠), as a technical officer, engineer, vice-manager in engineer's office and deputy plant manager. Mr. Zhang joined PetroChina Corporation in 1999, and served as a director of the refinery and chemical department, as well as a vice president of PetroChina Holdings, the general manager of the chemical and sales branch and a deputy director of the consulting centre of PetroChina Corporation. Mr. Zhang retired in 2004. Mr. Zhang has been engaged since 2003 as an instructor for part-time doctoral students by the Dalian Institute of Chemistry and Physics, the Beijing Institute of Chemistry and the Qingdao Institute of Bioenergy and Bioprocess Technology with the Chinese Academy of Sciences. From 2006 to 2012, Mr. Zhang was appointed as the independent non-executive director of China BlueChemical Ltd., a company whose shares are listed on the Stock Exchange (Stock Code: 3983). From 2010 to 2015, Mr. Zhang was appointed as the chief engineer of Xuyang Chemical Industry Group Company Limited and the chief engineer of its research institute. Mr. Zhang has been appointed as the independent non-executive director of Danhua Chemical Technology Co. Ltd., (丹化化工科技股份有限公司) a company whose shares are listed on the Shanghai Stock Exchange (Stock Codes: 600844 (A Shares) and 900921 (B Shares)) since 2013. In 2015, Mr. Zhang was appointed as the independent non-executive director of Gansu Lanpec Technologies Company Limited (甘肅藍科石化高新裝備股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (Stock Code: 601798).

**Mr. Ng Wing Fai (吳榮輝)**, aged 58, 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. Mr. Ng has been appointed as an independent non-executive director of Evergreen International Holdings Limited, a company listed on the Stock Exchange (Stock Code: 238) since June 2016.

## SENIOR MANAGEMENT

**Mr. Zhou Zheng Qiang (周政強)**, aged 51, President of the Group and Chairman of Beijing Consen, 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 (中國華陸工程公司) for 15 years from 1988 to 2002. From April 2002 to January 2006, he was the general manager of Xi'an Lan Xi Control System Engineering Company Limited (西安籃溪控制系統工程有限責任公司). He joined the Group in February 2006.

**Mr. Cui Da Chao (崔大潮)**, aged 60, 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 specialisation in international accounting.

**Mr. Ma Yu Shan (馬玉山)**, aged 48, is the Vice President of the Group and Chairman of Wuzhong Instrument Company Limited 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 prise 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 Company Limited. During the period between 2001 and 2006, served as deputy general manager of Wuzhong Instrument Company Limited and the period between 2006 and 2016, served as general manager of Wuzhong Instrument Company Limited.

**Ms. Dong Yan (董艷)**, aged 49, Vice President 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 Company Limited. as a department manager. In China Automation Group Company Limited, Ms. Dong is in charge of the Board and legal issues, as well as business administration affairs.

**Mr. Duan Min (段民)**, aged 50, 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 experiences working in the automation systems and instruments industry in China. He joined the Group in May 1999.

**Mr. Chen Yong (陳勇)**, aged 49, Vice-President of the Group. Prior to joining the Group in 2003, Mr. Chen worked in manufacturing management and sales at Shanghai Foxboro Company Limited (上海福克斯波羅有限公司). 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 specialisation in computer applications, and from University of Science and Technology Beijing (北京科技大學) with a specialisation in engineering management

**Ms. Wang Yan Mei (王彥梅)**, aged 76, is Chairman and General Manager of the Beijing Haidian Zhongjing Engineering Design and Software Technology Company Limited (北京海澱中京工程設計軟件技術有限公司). 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 53, Chairman of Nanjing Huashi Electronic Scientific Company Limited (南京華士電子科技有限公司) ("Nanjing Huashi"). 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 (同濟大學). From April 1988 to 1996, he served as 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 Company Limited (株洲時代電氣), listed on the Stock Exchange (Stock Code: 3898). 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 Group in 2011.

**Mr. Yang Zhan Fu (楊占富)**, aged 48, is the General Manager of Wuzhong Instrument since December 2016. He is responsible for the company's overall operation and management. Mr. Yang graduated from Xi'an Technological University (西安工業學院), majoring in mechanical manufacturing and equipment. He joined Wuzhong Instrument in 1989, and being the vice general manager from 2008 to 2016.

**Mr. Zhang Yue Ming (張岳明)**, aged 40, is the General Manager of Nanjing Huashi. He graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學), majoring in electrical technology. Mr. Zhang joined Nanjing Huashi in 1998. He has been engaged in R&D, design and management for more then 10 years, obtaining a number of patents of invention and software copyrights.

**Mr. William Erik Barkovitz**, aged 46, 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 of 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 the Group called Inovex.

**Mr. Chow Chiu Chi (周昭智)**, aged 58, is the Group's Finance Controller 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 a fellow member of Hong Kong Institute of Certified Public Accountants. He has over 30 years of experiences in finance, accounting and internal audit.

# DIRECTORS' REPORT

The directors of the Company (the "Directors") are pleased to present their report together with the audited consolidated financial statements for the year ended 31 December 2016.

## 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 specialised 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 results 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 2016 is set out in the section headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 5 to 8 and pages 9 to 14 of this annual report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 45 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 Chinese 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 increase 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 the decline in oil prices by reducing expenditures which may have an adverse effect on our business in the future and 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 to emphasise 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 (2015: Nil) for the year ended 31 December 2016.

## 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 Wednesday, 24 May 2017 to Monday, 29 May 2017 (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 Tuesday, 23 May 2017.

## 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 2016 is set out on page 126 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 2016 are set out on page 49 of this annual report. As at the balance sheet date, the Group's distributable reserves amounted to RMB404,076,000 (2015: RMB882,386,000), subject to the applicable statutory requirements under the laws of the relevant jurisdictions.

## 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 2016 or subsisted at the end of the year.

## SHARE CAPITAL

Details of the share capital of the Company as at 31 December 2016 are set out in note 38 to the consolidated financial statements.

## CHARITABLE CONTRIBUTIONS

The Group didn't make any charitable contribution for the year ended 31 December 2016 (2015: Nil).

## 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 2016 are set out in note 48 to the consolidated financial statements.

## EMPLOYEES

As at 31 December 2016, the Group had a total of 1,936 employees (31 December 2015: 2,024). The decrease in staff headcount was mainly attributable to 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, performances and experiences 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. Wang Chuensheng (appointed on 26 August 2016)
Mr. Huang Zhi Yong (resigned on 26 August 2016)
Mr. Kuang Jian Ping (resigned on 26 August 2016)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Tai Wen
Mr. Zhang Xin Zhi (appointed on 26 August 2016)
Mr. Sui Yong Bin (resigned on 26 August 2016)
Mr. Ng Wing Fai

Pursuant to articles 86 and 87 of the articles of association of the Company, Mr. Wang Chuensheng, Mr. Zhang Xin Zhi and Mr. Ng Wing Fai shall retire from office by rotation at the annual general meeting and shall be eligible for re-election.

Mr. Ng Wing Fai has served as an independent non-executive director for more than nine years since 2007. Pursuant to code provision A.4.3 of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), (a) such service to the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders of the Company.

The Company has received from Mr. Ng Wing Fai a confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Mr. Ng has not engaged in any executive management of the Group. Taking into consideration of his independent scope of work during his term of service, the Directors consider that Mr. Ng remains independent under the Listing Rules notwithstanding the length of his service. Accordingly, his further appointment shall be subject to a separate resolution to be approved by shareholders of the Company at the forthcoming annual general meeting of the Company.

## 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 2016 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 2016 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 16 to 19 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 2016 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 40 to the consolidated financial statements, at no time during the year ended 31 December 2016 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, 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 2016, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

| **Name of Director** | **Capacity/nature of interest** | **No. of shares interested** (Note 1) | **Approximate percentage of shareholding in the Company** |
|---|---|---|---|
| Mr. Xuan Rui Guo (Notes 2&3) | Beneficial owner | 1,000,000 (L) | 0.01% |
| | Interest of controlled corporation | 763,931,296 (L) | 74.53% |
| | Interest of controlled corporation | 248,235,132 (S) | 24.19% |

The interests of Directors in the share options of the Company are separately disclosed in the section headed "Share Option Scheme" below and note 40 to the consolidated financial statements.

Save as disclosed above and disclosed under the paragraph headed "Share Option Scheme" below, as at 31 December 2016, 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 2016, to the best knowledge of the Directors, the following persons, other than the Directors and chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

| Name of substantial shareholder | Capacity/nature of interest | No. of shares interested (Note 1) | Approximate percentage of shareholding in the Company |
|---|---|---|---|
| Araco Investment Limited (Note 2) | Beneficial owner | 763,931,296 (L) | 74.44% |
| | | 248,235,132 (S) | 24.19% |
| Brightex Enterprises Limited (Notes 2&3) | Interest of controlled corporation | 763,931,296 (L) | 74.44% |
| | | 248,235,132 (S) | 24.19% |
| Ascendent Automation (Cayman) Limited (Note 2) | Interests of any parties to an agreement to acquire interests of the Company required to be disclosed under s.317(1)(a) and s.318 of the SFO | 763,931,296 (L) | 74.44% |
| Ascendent Capital Partners II, L.P. (Notes 2&4) | Interest of controlled corporation | 763,931,296 (L) | 74.44% |
| Ascendent Capital Partners II GP, L.P (Notes 2&4) | Interest of controlled corporation | 763,931,296 (L) | 74.44% |
| Ascendent Capital Partners II GP Limited (Notes 2&4) | Interest of controlled corporation | 763,931,296 (L) | 74.44% |
| Mr. Meng Liang (Notes 2&4) | Interest of controlled corporation | 763,931,296 (L) | 74.44% |
| Mr. Zhang Yi Kevin (Notes 2&4) | Interest of controlled corporation | 763,931,296 (L) | 74.44% |

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any persons, other than a Director or a chief executive of the Company, who had or were deemed or taken to have interests or short positions in shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered in the registered kept by the Company under the SFO.

Notes: 1. (L) – long position, (S) – short position

2. Pursuant to the consortium agreement (the "Consortium Agreement") dated 23 June 2016, as supplemented by a side letter dated 14 March 2017, between Ascendent Automation (Cayman) Limited ("AACL"), Araco Investment Limited ("Araco") and Brightex Enterprises Limited ("Brightex"), AACL has the right to require Araco to transfer shares of the Company at HK1.20 to AACL to discharge some or all of the amount then owing by Araco to AACL pursuant to the facility agreement dated 23 June 2016 entered into between AACL (as lender) and Araco (as borrower) and/or to purchase some or all of the shares of the Company at HK$1.20 then held by Araco on or before 15 September 2017 (or such other date AACL, Araco and Brightex may agree in writing) in order to achieve the agreed allocation of shares between Araco and AACL (the "Exchange Right"). The Exchange Right will entitle AACL to require Araco to transfer and/or to purchase 248,235,132 shares of the Company held by Araco. AACL is deemed under sections 317 and 318 of the SFO to be interested in 763,931,296 shares of the Company held by Araco (including those 248,235,132 shares of the Company subject to the Exchange Right).

3. Araco is a wholly-owned subsidiary of Brightex which is in turn wholly-owned by Mr. Xuan Rui Guo ("Mr. Xuan"). By virtue of the SFO, Brightex and Mr. Xuan are deemed to be interested in the 763,931,296 shares of the Company and 248,235,132 short positions in the Company in which Araco is interested.

4. AACL is a wholly-owned subsidiary of Ascendent Capital Partners II, L.P ("ACP"). The general partner of ACP is Ascendent Capital Partners II GP, L.P ("ACP GP") and its general partner is Ascendent Capital Partners II GP Limited ("ACP GP Ltd"). Each of Mr. Meng Liang ("Mr. Meng") and Mr. Zhang Yi Kevin ("Mr. Zhang") owns 50% of ACP GP and ACP GP Ltd respectively. By virtue of the SFO, ACP, ACP GP, ACP GP Ltd, Mr. Meng and Mr. Zhang are deemed to be interested in 763,931,296 shares of the Company in which AACL is interested.

## 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.

A summary of movements of the share options granted to Directors and certain employees during the year is as follows:

| Name of grantee | Date of grant | Exercise price per share (HK$) | Number of Share Options: As at 1 January 2016 | Granted during the year | Exercised during the year | Lapsed/ cancelled during the year | As at 31 December 2016 | Note |
|---|---|---|---|---|---|---|---|---|
| Mr. Xuan | 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) | – | |

* Resigned as the executive director of the Company on 26 August 2016

Note:

(1) The options had a validity period from 25 July 2014 to 24 July 2018. None of the share options was exercisable during the period from 25 July 2014 to 24 July 2015. The share options were exercisable in the following manner, provided that the relevant performance targets were achieved, and the closing price of the share on the trading day immediately preceding the date of exercise was HK$2.4 or above:

(i) up to one third of the share options would become exercisable on 25 July 2015;

(ii) up to one third of the share options would become exercisable on 25 July 2016; and

(iii) up to one third of the share options would become exercisable on 25 July 2017,

but as a result of the Offers, details of which are set out in the section "The Offers" below, such share options had lapsed or cancelled as the Offers closed on 9 September 2016.

(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 40 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.

## THE OFFERS

The Company was informed by Mr. Xuan, the chairman and an executive director of the Company that on 23 June 2016, Mr. Xuan and Araco, a company incorporated in the British Virgin Islands ("BVI") and indirectly wholly owned by Mr. Xuan (the "Offeror") entered into a sale and purchase agreement ("SPA") with, among others, Consen Group Holding Inc., the immediate holding company of the Company incorporated in the BVI ("Consen Group") pursuant to which the Offeror agreed to acquire 457,933,541 shares of the Company from Consen Group, representing approximately 44.62% equity interest of the Company.

Completion of the SPA took place on 24 June 2016, immediately upon which, Mr. Xuan and the Offeror became collectively interested in approximately 44.72% of the voting rights in the Company. Accordingly, pursuant to the Hong Kong Code on Takeovers and Mergers, Mr. Xuan, through the Offeror, is required to make a conditional mandatory cash offer for all the issued shares of the Company which are not already owned by the Offeror and parties acting in concert with any of them (the "Concert Group"), and to cancel all outstanding share options of the Company (other than those held by the Concert Group) (the "Offers"). The Offers closed on 9 September 2016.

Details of the Offers are set out in the announcement of the Company dated 24 June 2016 and the composite offer and response document of the Company dated 5 August 2016.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save for the redemption of the 2016 Guaranteed Notes which are listed on the Singapore Stock Exchange Securities Trading Limited as disclosed in note 35 to the consolidated financial statements, the Company has not redeemed any of its securities during the year ended 31 December 2016. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year ended 31 December 2016.

## 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 2016.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchase and revenue for the year ended 31 December 2016 attributable to the Group's major suppliers and customers respectively are as follows:

| | **2016** | 2015 |
|---|---|---|
| | **%** | % |
| Purchase | | |
| – the largest supplier | **20.3** | 17.8 |
| – the five largest suppliers combined | **30.9** | 31.8 |
| Revenue | | |
| – the largest customer | **10.5** | 14.4 |
| – the five largest customers combined | **25.1** | 36.7 |

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 recognises 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 organisations.

### 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 services 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. 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 consolidated 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 2016 and the year ended 31 December 2016 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, 23 March 2017

# CORPORATE GOVERNANCE PRACTICES

## 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 emphasises 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 complied with all the applicable code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2016, save and except for the following deviations:.

Code provision A.6.7 stipulates that, among others, the independent non-executive directors and other non-executive directors should attend general meetings of the Company. Mr. Sui Yong Bin, an independent non-executive director, was unable to attend the annual general meeting of the Company held on 27 May 2016 ("2016 AGM") due to his medical condition. Mr. Wang Tai Wen, an independent non-executive Director, was also unable to attend the 2016 AGM due to other business commitment.

Code provision E.1.2 stipulates that, among others, the chairman of the board should attend the annual general meeting of the Company. Mr. Xuan Rui Guo, the Chairman of the Board, was unable to attend the 2016 AGM due to other business commitment.

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. On 14 September 2016, Mr. Xuan Rui Guo, the Chairman and executive director of the Company, has been appointed as the Chief Executive Officer of the Company. The Board believes that with the support of the management, vesting the roles of both chairman and chief executive officer by the same person can facilitate execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which currently consists of two executive Directors and three independent non-executive Directors, the interests of the shareholders of the Company will be adequately and fairly represented.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Code.

## 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 2016.

## 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 five members, consisting of two executive directors, namely Mr. Xuan Rui Guo (the Chairman and the Chief Executive Officer), Mr. Wang Chuensheng; and three independent non-executive directors, namely Mr. Wang Tai Wen, Mr. Zhang Xin Zhi 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 profile of all the Directors are set out on pages 16 to 19 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.

Ten Board meetings were held during the year ended 31 December 2016. 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 Directors' tenure) | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **AGM** |
| **Executive Directors** | | | | | |
| Mr. Xuan Rui Guo | 10/10 | N/A | 1/1 | 1/1 | 0/1 |
| Mr. Huang Zhi Yong* | 7/7 | N/A | 1/1 | N/A | 1/1 |
| Mr. Kuang Jian Ping* | 7/7 | N/A | N/A | 1/1 | 0/1 |
| Mr. Wang Chuensheng* | 3/3 | N/A | N/A | N/A | N/A |
| **Independent Non-executive Directors** | | | | | |
| Mr. Wang Tai Wen | 10/10 | 2/2 | 1/1 | 1/1 | 0/1 |
| Mr. Ng Wing Fai | 10/10 | 2/2 | 1/1 | 1/1 | 1/1 |
| Mr. Sui Yong Bin* | 2/7 | 1/2 | 1/1 | 1/1 | 0/1 |
| Mr. Zhang Xin Zhi* | 3/3 | N/A | N/A | N/A | N/A |

* With effect from 26 August 2016, (i) Mr. Kuang Jian Ping has resigned as the Chief Executive Officer and the Executive Director of the Company; (ii) Mr. Huang Zhi Yong has resigned as the Executive Director of the Company; (iii) Mr. Sui Yong Bin has resigned as an Independent Non-executive Director of the Company due to his medical conditions; and (iv) Mr. Wang Chuensheng has been appointed as an Executive Director and Mr. Zhang Xin Zhi has been appointed as an Independent Non-executive Director of the Company.

Minutes of the 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 2016 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* | ✓ | ✓ |
| Mr. Wang Chuensheng* | ✓ | ✓ |
| **Independent Non-executive Directors** | | |
| Mr. Wang Tai Wen | ✓ | ✓ |
| Mr. Ng Wing Fai | ✓ | ✓ |
| Mr. Sui Yong Bin* | ✓ | ✓ |
| Mr. Zhang Xin Zhi* | ✓ | ✓ |

* With effect from 26 August 2016, (i) Mr. Kuang Jian Ping has resigned as the Chief Executive Officer and the Executive Director of the Company; (ii) Mr. Huang Zhi Yong has resigned as the Executive Director of the Company; (iii) Mr. Sui Yong Bin has resigned as an Independent Non-executive Director of the Company due to his medical conditions; and (iv) Mr. Wang Chuensheng has been appointed as an Executive Director and Mr. Zhang Xin Zhi has been appointed as an Independent Non-executive Director of the Company.

## AUDIT COMMITTEE

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

Mr. Ng Wing Fai *(Committee Chairman)*
Mr. Zhang Xin Zhi
Mr. Wang Tai Wen

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

The Audit Committee meets regularly to review the Group's financial reporting and other information provided to shareholders, the system of internal controls, risk management and the effectiveness and objectivity 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 during the relevant period to review and discuss risk management, internal controls and financial reporting matters including a review of the consolidated financial statements for the six months ended 30 June 2016 and the year ended 31 December 2016.

## REMUNERATION COMMITTEE

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

Mr. Wang Tai Wen *(Committee Chairman)*
Mr. Zhang Xin Zhi
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Wang Chuensheng

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

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

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

## NOMINATION COMMITTEE

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

Mr. Zhang Xin Zhi *(Committee Chairman)*
Mr. Ng Wing Fai
Mr. Wang Tai Wen
Mr. Xuan Rui Guo
Mr. Wang Chuensheng

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. One Nomination Committee meeting was held during the relevant period and all members have attended the meeting.

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.

Pursuant to articles 86 and 87 of the articles of association of the Company, Mr. Wang Chuensheng, Mr. Zhang Xin Zhi and Mr. Ng Wing Fai shall retire from office by rotation at the annual general meeting and shall be eligible for re-election.

Mr. Ng Wing Fai has served as an Independent Non-executive Director for more than nine years since 2007. Pursuant to code provision A.4.3 of the Code set out in Appendix 14 of the Listing Rules, (a) such service to the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders of the Company.

The Company has received from Mr. Ng Wing Fai a confirmation of independence pursuant to Rule 3.13 of the Listing Rules. Mr. Ng has not engaged in any executive management of the Group. Taking into consideration of his independent scope of work during his term of service, the Directors consider that Mr. Ng remains independent under the Listing Rules notwithstanding the length of his service. Accordingly, his further appointment shall be subject to a separate resolution to be approved by shareholders of the Company at the forthcoming annual general meeting of the Company.

## AUDITORS' REMUNERATION

For the year ended 31 December 2016, the fees charged by the Company's auditors in respect of audit and non-audit (taxation and enterprise risk management) services amounted to approximately RMB2,615,000 for the year ended (2015: RMB4,070,000) and RMB440,000 for the year ended (2015: RMB800,000) respectively.

## COMPANY SECRETARY

Mr. Chow Chiu Chi ("Mr. Chow") is the company secretary of the Company. Mr. Chow is 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 pages 41 to 44 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 unauthorised 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 Company has an internal audit function and the risk management and internal control systems of the Group are reviewed on an annual basis. The Board reviewed the Group's risk management and internal control systems for the year ended 31 December 2016 and considered the systems to be effective and adequate.

## COMMUNICATION WITH SHAREHOLDERS

The Group believes that effective communication with investors in developing its 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 at 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, Wanchai, 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, Hong Kong 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 2016.

# ENVIRONMENT, SOCIAL AND GOVERNANCE REPORT

Apart from the Environmental, Social and Governance ("ESG") Reporting Guide issued by the Stock Exchange, we have adopted the Integrated Reporting Framework published by the International Integrated Reporting Council to answer stakeholders' needs. As part of our commitment to achieve continuous improvement, this ESG report makes further disclosure on matters relating to the ESG strategy of the Company and the Group, priority and the concepts that drives sustainable development of our businesses.

Sustaining the Group's businesses through our operations requires a clear vision, and the balancing of the interests of our stakeholders while determining and executing our strategies.

While our visions remain consistent, the dynamic nature of stakeholders' preferences requires us to carry out regular review and refinement of our strategies and risk management procedures to ensure stakeholders' ever changing needs are fulfilled.

It is an on-going journey for the Group to align all aspects of our business processes and organisational performance measures to our visions.

## STAKEHOLDERS ENGAGEMENT

Our goal is to create long-term and sustainable value for shareholders who are the ultimate owners of the Company. We engage and interact with our stakeholders about our activities and identify any potential impacts such activities may have on the environment, workforce or communities. At corporate and working levels, and through our environmental and social impact assessment processes, we communicate with a range of stakeholders to ensure that we understand their concerns.

Representatives of the auditors of the Company also attended the annual general meeting to answer questions about the consolidated financial statements of the Group for the year ended 31 December 2015. The 2016 AGM was conducted to discuss and approve 2015 accounts. The Board meets regularly to discuss the overall strategies, monitor financial performance, evaluate operation performances and discuss other significant matters.

Shareholders will expect the quality of the information they receive and the Group's commitment to the on-going delivery of sustainable value for shareholders are supported by strong and comprehensive systems and processes. In our annual report, particular effort is made to address an extensive description of the performance and outlook for our businesses. For example, the Chairman's Statement focuses on the recent review of the Group's operation strategy and changes in the petrochemical and railway industries, an overview of the Group's performance in 2016 and an outline of our key plans in the coming years.

The Company will update our shareholders and the investment community through various channels, including but not limited to investor meeting, conference call and investment conference. In 2016, physical meetings and conference calls were held frequently with the investment community which included analysts, fund managers, rating agencies and other investors, to keep them abreast of the operations and development trends of the Company.

In order to further enhance communication with the shareholders of the Company and enable the Company's shareholders to have timely and updated information of the Group, the Group has set up its own website at http://www.cag.com.hk where corporate governance principles and practices, interim and annual reports, announcements, circulars, corporate business development and other information of the Company can be accessed by the public.

## CORPORATE CULTURE

Inspiring our staff towards excellence is one of our core strategies to fulfil our mission of promoting a people-oriented culture. This goal is achieved through the recognition of our priority subjects, identification of the relevant strategies and management approach, as well as through management of related risks.

The group has 8 sales offices and 7 service centres in China with our headcount reaching a total of 1,936 employees as at 31 December 2016, enabling us to deliver our products and services to different locations in China where we operate.

Respect is an important value for the Company that reflects our attitude towards both internal and external stakeholders. We see respect as a core strength that must reside at the heart of our Group and include all our stakeholders.

We believe that in an increasingly complex and fast changing business environment, respecting stakeholders' diversity helps us to understand and cater to the needs of different stakeholders with varying perspectives and also helps us stay sensitive to different opportunities and risks.

## WORKPLACE QUALITY

The Company implements a set of policies, operating manuals, handbooks and protocols to build a workplace where our colleagues can feel respected in a diverse and fair working environment, enabling everyone to deliver their performances unrelentingly and prosper in their preferred career paths.

The Company is committed in promoting occupational health and safety by providing a safe working environment and safety equipment for the staff and ensuring that safety measures are in place in order to achieve zero accident rate.

We endeavored more resources in monitoring and minimising the potential occupational health and safety risk in the workplace, improving the safety equipment and facilities and maintaining insurance policies, with the ultimate goal of creating a safe workplace for the staff. There were zero case of fatality due to workplace accidents in 2016. There were zero case of work related injuries in 2016.

### OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

In accordance with the requirements under the international managements standards – OHSAS 18001 (Occupational Health and Safety Management Systems) and the Group's own environmental and occupational health safety management policy, we identified sources of danger and compiled preventive measures to reduce risks.

Our occupational health and safety system is regularly audited by both internal and external parties to ensure its effectiveness and that compliance is achieved. With our occupational health and safety system in place throughout the year, there had been no observed incidence of non-compliance with the relevant laws and regulations that have had a significant impact on the Group.

Safe, effective and congenial workplace and policies are important in the operation of the Group and we comply with labour standards and laws of the PRC, where the Group operates its principle businesses in. All of the Group's key business units have set up internal guidelines and systems specific to their industries to protect and ensure the health and safety of the employees. They have teams dedicated to workplace safety, tools and equipment sourcing, and provide trainings to employees in order ensure that they can discharge their duties safely.

### STAFF DEVELOPMENT AND TRAINING

The Group recognises the importance of skilled and professionally trained employees to its business's development and future success and aspires to provide inspiring career paths for our staff.

The Group established a fair and equitable mechanism to manage staff's remunerations and provides performance incentives that enable staff to grow with the Group. Apart from statutory packages, the Group also offers meal allowances, holiday gifts and gold medals for long service.

We also provide employees with paid leave, offer dispatched employees and marketing employees family visit leave and reimbursement for family visits of employees who do not work in their home-province. The Group also pays salaries to employees on time and in full, and makes required contributions to the statutory social insurance, housing provident fund and personal accident insurance in accordance with the law. The Group also provides prenatal leave, breast-feeding leave and annual gynecological examinations for female staff.

The Group encourages staff to undertake training to enhance their job-related skills and knowledge through various channels, including in-house training, external seminar, management trainee program and apprenticeship, etc. to promote safety production, sales skills, customer services, etc.

During the year, over 266 hours of in-house training were delivered to staff at the management level and over 1,430 hours were delivered to staff at the operation levels by our training department.

### WORKFORCE

The Group strives to offer equal and fair job opportunities to all qualified candidates regardless of age, nationality, race, religion, sexual orientation, gender, marital status, pregnancy, disability and political stance. Meanwhile, we offer employees competitive remuneration and benefits and strictly complies with the labour laws and regulations in which businesses are operated.

As at 31 December 2016, the Group had a total of 1,936 employees.

The Group prohibits and does not employ child or forced labour. The Group reviews its employment policies from time to time to ensure that all relevant laws and regulations on preventing child or forced labour throughout the reporting period are complied with and we are not aware of any non-compliance case.

## ENVIRONMENTAL PROTECTION

The Group is committed to avoid developing at the expense of the environment, and has complied with international and national environmental standards and implemented green production policies to raise energy efficiency and minimise energy consumption and the discharge of pollutants.

### ENVIRONMENT MANAGEMENT

In order to fulfill requirements under relevant internationally recognised environment management systems and the Group's own environment management policy, we conducted identification and assessment of environment factors faced by each business unit. We identified within each of them key environment factors and established objectives, targets and control measures and enhanced our procedural document and management systems.

Over the years, the Group continued its energy saving improvements and achieved a year-on-year reduction of electricity consumption.

Most of the Group's business units had plans and metrics to reduce pollution and emissions throughout 2016.

### SEWAGE DISPOSAL

Beijing Consen generates most sewage from livelihood activities which is disposed of via the city government's sewage channels. Examinations were conducted regularly.

Nanjing Huashi collects all oil-contaminated sewage from the production process and hands it over to the local dangerous item processing department for safety disposal regularly.

Wuzhong Instrument centralises its collection of oil-containing sewage for production and hands them over to Ningxia Dangerous Goods and Medical Waste Disposal Centre for safe treatment and disposal. The sewage from the production facilities was mostly livelihood sewage that met the relevant sewage disposal standards according to tests conducted by the Wuzhong City Environment Monitoring Station.

### NOISE CONTROL

Key noise sources of our business units are maintained and utilised in strict adherence to relevant requirements and had effectively kept noise pollution under effective control. Every year, we invite officials from the relevant government authorities to conduct noise emission assessments and the results were positive.

### SOLID WASTE DISPOSAL

The Group's business units classify and collect solid wastes in accordance with "List of Hazardous Waste of China" and its own "Electronic Waste Management Protocol", to be transferred to eligible treatment contractors for safety disposal via the property managers. Waste with recycling or resale values, such as packing paperboards, from various departments and production workrooms, are collected and centralised for delivery to recyclable waste storage stations, where they are taken care of in accordance with relevant laws and regulations.

### HAZARDOUS WASTE DISPOSAL

The Group's business units comply with requirements from the environment protection departments of the city governments and their own hazardous waste management systems and have established storages for hazardous wastes with proper logistics records that track wastes coming in and going out of the storage including the departments that are responsible for generating the wastes, the types the quantities and the entry and exit records.

### ENERGY SAVING AND CONSUMPTION MANAGEMENT

The Group promotes various cost saving and efficiency enhancement initiatives to enhance staff awareness on this. Resources were consumed on need basis.

Beijing Consen utilises the centralised thermal heat supply from the city government and thereby effectively saved energy and other resources. We persistently improved product design and processing craftsmanship to enhance material utilisation.

From the outset, Nanjing Huashi's base has been using underground heat pump systems to regulate temperature, which effectively lowers its energy consumption. Nanjing Huashi has been improving its product designs and craftsmanship to maximise the utilisation rate of raw materials, and it kick started various practices on lowering costs and enhancing efficiency to help save energy resources, putting an end to practices of keeping lights on or water flows.

Wuzhong Instrument accomplished energy saving through improvements in craftsmanship, material utilisation and various measures.

## OPERATING PRACTICES

### SUPPLY CHAIN MANAGEMENT

The Group developed a comprehensive internal procurement system. It strictly adheres to relevant laws and regulations of each of the countries from which it sources materials and supplies. International best practices are implemented and fair and unbiased tender processes are conducted. Steps are also taken to ensure that our partners and suppliers do not employ child labour or abuse human rights.

Steel plates, steel components, electrical and electronic components are major raw materials for the Group's production line. In the process of procuring these raw materials, the Group applies a fair procurement principle and adopts a low-carbon and green supply chain standard and the highest priority is given to suppliers who have obtained relevant certifications. In 2016, the Company procured its steel plates and steel components mainly from domestic suppliers in Jiangsu, Zhejiang, Tianjin, Shanghai, Hebei, Shanxi, Gansu, Shaanxi, Sichuan and Ningxia; and electrical and electronic components mainly from both domestic suppliers in China and overseas suppliers. The Company strives to minimize the impact of raw material procurement on the environment and help maintain an ecological balance.

Furthermore, the Company conducts annual reviews on its suppliers based on specific national and industry specific standards of the PRC and of other jurisdictions where our suppliers are based to ensure that they comply with environmental requirements and hygiene standards and that the ecosystem and consumers' rights to safe products are protected.

### PRODUCT RESPONSIBILITY

Protecting our clients and safe-guarding their proprietary and confidential information are some of our top priorities. In addition to guidelines and handbooks, the group issues periodic reminders and runs workshops for our client relationship managers to continuously remind them of the importance of protecting confidential information. In addition, we have been maintaining adequate customer communications so that feedbacks can be taken note of and complaints can be handled efficiently. Customer complaints are thoroughly investigated and root causes are identified and acted upon.

### ANTI-CORRUPTION/ANTI-MONEY LAUNDERING

The Group has established a strong internal control framework, put in place a set of stringent policies and procedures, and has instituted a vigorous enforcement regime for preventing corruption, fraud and money laundering in order to achieve a zero-tolerance stance on corruption and fraud which emphasise on our values of integrity, fairness, transparency and accountability is evident.

In addition, our strong stance against corruption and fraud is communicated to all our employees, and requisite provisions are incorporated into our contracts with third party suppliers to ensure that they are fully aware of our position. These measures are further bolstered by independent audits conducted by the Company's internal audit function.

Furthermore, incidents or suspected incidents of corruption and fraud are immediately investigated by the business units concerned, and will be reported to the Audit Committee and executive management and scrutinised by the Company's internal audit function as and when appropriate.

A whistleblowing policy has also been adopted by the Group to allow anonymous reporting of improprieties, of which zero case of suspected or actual irregularities or misdeeds have been reported to us via this route in 2016.

During the year, there were no legal case regarding corruption or money laundering brought against the Group or its employees and no whistle blowing concerning criminal offence or misconduct was reported to the Group. We would cooperate fully with any investigation conducted by law enforcement agencies.

The Group keeps itself familiar with the ever-changing landscape of corruption and fraud, and is relentlessly searching for more effective measures to combat them. Trends and transaction analyses are carried out and incidents are dissected to ascertain the cause, course and remedies of the underlying issues, and periodic sessions are held within the Group to share knowledge, skills and experience.

## COMMUNITY INVOLVEMENT

The Group is passionate about charity. It extends its reach to the disadvantaged students, the elderly and the physically impaired. The Group has a volunteer team and encourages its employees to serve the community by participating in community and charity works.

The Group has developed programs to promote voluntary activities and encourage more volunteers to participate in community services and visit those in need and the underprivileged groups. The total number of participants and hours of services in all activities of the Group's volunteer team throughout 2016 were 230 and 6,900.

In addition, the Group's community involvement extends to locations in China where it operates. As members of the community that we cherish, the Group takes responsibility of seeing to its well-being seriously. We will continue to take a region-specific approach and develop tailor-made programs to address the needs and expectations of the local communities we serve.

In September 2016, Wuzhong Instrument was the title sponsor of "The 5th International Marathon of Ningxia (Wuzhong) Yellow River Coast" and made a donation of RMB3.6 million.

Deloitte.
德勤

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

## OPINION

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 45 to 125, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Ethics Code"), and we have fulfilled our other ethical responsibilities in accordance with the Ethics Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## KEY AUDIT MATTERS – CONTINUED

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of trade receivables* | |
| We identified impairment of trade receivables as a key audit matter due to the significance of trade receivables on the consolidated statement of financial position, and the impairment loss, determination of which involves management's significant judgment.<br><br>At 31 December, 2016, the Group has trade receivables, net of impairment losses, amounting to RMB1,137,398,000. An impairment loss on trade receivables amounting to RMB133,420,000 was recognised for the year ended 31 December 2016.<br><br>Details of the trade receivables and the estimation uncertainty on impairment of trade receivables are set out, respectively, in notes 27 and 4 to the consolidated financial statements. | Our procedures in relation to impairment of trade receivables included:<br><br>• Evaluating management's assumptions and judgement used in calculating impairment on trade receivables with reference to the aged analysis, historical payment patterns of selected receivables and their subsequent settlement;<br><br>• Testing, on sample basis, the appropriateness of the aged classification in the trade receivables aged analysis; and<br><br>• Arranging confirmations for receivables, especially those with significant overdue balances for with no impairment was provided. |
| *Revenue recognised from system sales* | |
| We identified revenue recognised from system sales as a key audit matter as material revenue transactions occurred close to the end of reporting period.<br><br>System sales of the Group for the year ended 31 December 2016 amounted to RMB471,093,000.<br><br>Details of the system sales are set out in note 5 to the consolidated financial statements. | Our procedures in relation to revenue recognised from system sales included:<br><br>• Examining the key terms set out in the sales and purchase agreements governing the deliveries of goods and transfer of titles for substantially all recorded system sales transactions in December 2016; and<br><br>• Checking the delivery and other documents evidencing that the goods were delivered and titles were passed for substantially all system sales transactions in December 2016. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Cheng Pak Chuen, Patrick.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
23 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 5 | 1,195,259 | 1,640,983 |
| Cost of sales | | (1,058,707) | (1,143,164) |
| Gross profit | | 136,552 | 497,819 |
| Other income | 7 | 74,828 | 38,307 |
| Other gains and losses | 8 | (157,366) | (349,097) |
| Selling and distribution expenses | | (117,490) | (147,682) |
| Administrative expenses | | (216,525) | (219,524) |
| Research and development expenses | | (86,192) | (76,130) |
| Other expenses | | (4,950) | (892) |
| Finance costs | 9 | (50,789) | (94,016) |
| Share of results of associates | | (2,507) | (1,575) |
| Share of results of a joint venture | | 1,597 | 1,474 |
| Loss before taxation | | (422,842) | (351,316) |
| Income tax credit (expense) | 10 | 7,945 | (12,203) |
| Loss for the year from continuing operations | 11 | (414,897) | (363,519) |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 12 | – | 217,261 |
| Loss for the year | | (414,897) | (146,258) |
| Other comprehensive expense for the year (net of tax) | | | |
| Items that maybe subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | 2,536 | (797) |
| Share of translation reserve of a joint venture | | 527 | (261) |
| Reclassification adjustment for the cumulative share of translation reserve upon disposal of a joint venture | | 230 | – |
| | | 3,293 | (1,058) |
| Total comprehensive expense for the year | | (411,604) | (147,316) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(390,757)** | (105,114) |
| Non-controlling interests | | **(24,140)** | (41,144) |
| | | **(414,897)** | (146,258) |
| Total comprehensive expense attributable to: | | | |
| Owners of the Company | | **(387,464)** | (106,172) |
| Non-controlling interests | | **(24,140)** | (41,144) |
| | | **(411,604)** | (147,316) |
| Loss per share | 16 | | |
| From continuing and discontinued operations | | | |
| Basic and diluted (RMB cents) | | **(38.08)** | (10.24) |
| From continuing operations | | | |
| Basic and diluted (RMB cents) | | **(38.08)** | (31.06) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | 17 | **883,918** | 633,423 |
| Deposit for acquisition of property, plant and equipment | | **40,303** | 5,223 |
| Prepaid lease payments – non-current portion | 18 | **271,119** | 136,315 |
| Intangible assets | 19 | **69,273** | 81,810 |
| Goodwill | 20 | **8,890** | 8,890 |
| Interests in associates | 22 | **20,585** | 23,092 |
| Interest in a joint venture | 23 | **–** | 5,433 |
| Pledged bank deposits | 29 | **405** | 4,731 |
| Deferred tax assets | 24 | **66,486** | 32,209 |
| Available-for-sale ("AFS") financial assets | 25 | **41,170** | 64,217 |
| | | **1,402,149** | 995,343 |
| **Current Assets** | | | |
| Prepaid lease payments – current portion | 18 | **6,314** | 3,434 |
| Inventories | 26 | **481,724** | 635,131 |
| Trade and bills receivables | 27 | **1,420,321** | 1,602,558 |
| Other receivables and prepayments | 28 | **145,330** | 176,954 |
| Pledged bank deposits | 29 | **61,934** | 73,576 |
| Bank balances and cash | 30 | **168,538** | 601,241 |
| | | **2,284,161** | 3,092,894 |
| Assets classified as held for sale | 31 | **50,487** | – |
| | | **2,334,648** | 3,092,894 |
| **Current Liabilities** | | | |
| Trade and bills payables | 32 | **485,228** | 502,410 |
| Other payables, deposits received and accruals | 33 | **342,528** | 302,928 |
| Dividend payable | | **6** | 6 |
| Income tax payable | | **23,159** | 12,596 |
| Bank borrowings – due within one year | 34 | **333,803** | 283,551 |
| Guaranteed notes – due within one year | 35 | **–** | 424,817 |
| | | **1,184,724** | 1,526,308 |
| Liabilities directly associated with assets classified as held for sale | 31 | **39,177** | – |
| | | **1,223,901** | 1,526,308 |
| Net Current Assets | | **1,110,747** | 1,566,586 |
| Total Assets less Current Liabilities | | **2,512,896** | 2,561,929 |

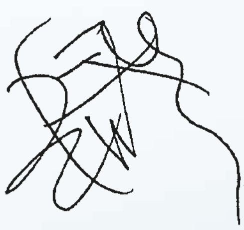
# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| Capital and Reserves | | | |
| Share capital | 38 | **9,548** | 9,548 |
| Share premium and reserves | 39 | **1,378,092** | 1,763,462 |
| Equity attributable to owners of the Company | | **1,387,640** | 1,773,010 |
| Non-controlling interests | | **125,031** | 148,171 |
| Total Equity | | **1,512,671** | 1,921,181 |
| Non-current Liabilities | | | |
| Deferred tax liabilities | 24 | **16,640** | 16,640 |
| Bank borrowings – due after one year | 34 | **200,000** | 160,000 |
| Guaranteed notes – due after one year | 35 | **205,567** | 191,358 |
| Corporate bonds | 36 | **195,679** | – |
| Other non-current liabilities | 37 | **382,339** | 272,750 |
| | | **1,000,225** | 640,748 |
| Total Equity and Non-current Liabilities | | **2,512,896** | 2,561,929 |

The consolidated financial statements on pages 45 to 125 were approved and authorised for issue by the Board of Directors on 23 March 2017 and are signed on its behalf by:

*Director*



*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 (Note 39(i)) | Other reserve RMB'000 (Note 39(ii)) | Statutory surplus reserves RMB'000 (Note 39(iii)) | Contribution from owners RMB'000 | Translation reserve RMB'000 | Share options reserve RMB'000 (Note 39(iv)) | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2015 | 9,548 | 648,367 | 34,666 | 165,464 | 619 | 11,072 | 1,735 | 1,004,535 | 1,876,006 | 325,996 | 2,202,002 |
| Loss 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 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 40) | – | – | – | – | – | – | 3,176 | – | 3,176 | – | 3,176 |
| Derecognised 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 |
| Loss for the year | – | – | – | – | – | – | – | (390,757) | (390,757) | (24,140) | (414,897) |
| Exchange difference arising on translation of foreign operations | – | – | – | – | – | 2,536 | – | – | 2,536 | – | 2,536 |
| Share of translation reserve of a joint venture (Note 23) | – | – | – | – | – | 527 | – | – | 527 | – | 527 |
| Reclassification adjustment for the cumulative share of translation reserve upon disposal of a joint venture (Note 23) | – | – | – | – | – | 230 | – | – | 230 | – | 230 |
| Total comprehensive expense for the year | – | – | – | – | – | 3,293 | – | (390,757) | (387,464) | (24,140) | (411,604) |
| Appropriations to reserves | – | – | – | 93,674 | – | – | – | (93,674) | – | – | – |
| Capital contributions from non-controlling shareholders of a subsidiary | – | – | – | – | – | – | – | – | – | 1,000 | 1,000 |
| Recognition of equity-settled share-based payments (Note 40) | – | – | – | – | – | – | 2,094 | – | 2,094 | – | 2,094 |
| Effect of share option cancellation (Note) | – | – | – | – | 884 | – | (7,005) | 6,121 | – | – | – |
| At 31 December 2016 | **9,548** | **648,367** | **34,666** | **276,173** | **1,503** | **13,307** | **–** | **404,076** | **1,387,640** | **125,031** | **1,512,671** |

Note: All the share options have been cancelled for a payment of Hong Kong Dollar (HK$) 1,026,260 (equivalent to approximately RMB884,000) made by the controlling shareholder, which is deemed as a contribution from owners. Further details are given in Note 40.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Loss for the year | | (414,897) | (146,258) |
| Adjustments for: | | | |
| Income (credit) tax expense for: | | | |
| Continuing operations | | (7,945) | 12,203 |
| Discontinued operations | | – | 70,696 |
| Share of results of associates | | 2,507 | 1,575 |
| Share of results of a joint venture | | (1,597) | (1,474) |
| Finance costs | | 50,789 | 94,130 |
| Early redemption premium of guaranteed notes | | 5,342 | 14,767 |
| Depreciation of property, plant and equipment | | 47,836 | 43,669 |
| Prepaid lease payments released | | 5,894 | 3,267 |
| Amortisation of intangible assets | | 12,537 | 24,131 |
| Deferred income released to profit or loss | | (3,540) | (3,603) |
| Change in fair value of derivatives | | – | 47 |
| (Gain) loss on disposal of property, plant and equipment | | (80) | 180 |
| Loss on disposal of a joint venture | 23 | 233 | – |
| Gain on disposal of a subsidiary | | – | (269,947) |
| Allowance on bad and doubtful debts | | 111,626 | 123,801 |
| Impairment losses on AFS financial assets | | 23,047 | – |
| Impairment losses on intangible assets | | – | 119,134 |
| Impairment losses on goodwill | | – | 60,125 |
| Interest income | | (1,248) | (3,128) |
| Foreign exchange losses | | 22,175 | 36,858 |
| Share-based payments expenses | | 2,094 | 3,176 |
| Operating cash flows before movements in working capital | | (145,227) | 183,349 |
| Decrease in inventories | | 135,739 | 38,011 |
| Decrease (increase) in trade and bills receivables | | 49,970 | (116,367) |
| Decrease (increase) in other receivables and prepayments | | 29,217 | (25,757) |
| Decrease in amounts due from customers for contract work | | – | 6,594 |
| Increase in trade and bills payables | | 5,169 | 47,096 |
| (Decrease) increase in deferred income | | (26,987) | 16,680 |
| Increase (decrease) in other payables and accruals | | 136 | (21,471) |
| Increase in discounted bills receivables | | 88,107 | – |
| Cash generated from operations | | 136,124 | 128,135 |
| Income tax paid | | (18,847) | (32,992) |
| Income tax refunded | | 2,385 | 3,147 |
| Net cash generated from operating activities | | 119,662 | 98,290 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **1,248** | 3,128 |
| Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment | | **(263,791)** | (136,823) |
| Increase in prepaid lease payment | | **(143,578)** | (33,347) |
| Development costs paid | | **–** | (22,753) |
| Proceeds from disposal of property, plant and equipment | | **1,661** | 185 |
| Proceeds from disposal of a joint venture | 23 | **5,059** | – |
| Dividend received from a joint venture | | **2,495** | – |
| Net cash inflow on disposal of a subsidiary | 12 | **–** | 765,373 |
| Transaction cost paid for disposal of a subsidiary | | **(5,237)** | (6,755) |
| Income tax paid for disposal of a subsidiary | | **–** | (68,012) |
| Receipts of government grants | | **137,569** | 69,946 |
| Relocation compensation received | | **–** | 30,800 |
| Placement of pledged bank deposits | | **(26,197)** | (86,305) |
| Withdrawal of pledged bank deposits | | **41,566** | 97,747 |
| Net cash (used in) generated from investing activities | | **(249,205)** | 613,184 |
| **FINANCING ACTIVITIES** | | | |
| Bank borrowings raised | | **610,769** | 667,009 |
| Repayment of bank borrowings | | **(607,533)** | (570,215) |
| Long term payable raised | | **–** | 100,000 |
| Repayment of guaranteed notes including early redemption premium | | **(434,291)** | (800,403) |
| Interest paid | | **(61,115)** | (93,621) |
| Proceeds from issuance of corporate bonds | 36 | **200,000** | – |
| Transaction costs incurred for issue of corporate bonds | | **(4,944)** | – |
| Proceeds from issuance of new guaranteed notes | | **–** | 193,074 |
| Transaction costs incurred for issue of new guaranteed notes | | **–** | (3,475) |
| Capital contributions from non-controlling shareholders of a subsidiary | | **1,000** | – |
| Net cash used in financing activities | | **(296,114)** | (507,631) |
| Net (decrease) increase in cash and cash equivalents | | **(425,657)** | 203,843 |
| Cash and cash equivalents at beginning of the year | | **601,241** | 395,231 |
| Effect of foreign exchange rate changes | | **3,529** | 2,167 |
| Reclassified as held for sale | 31 | **(10,575)** | – |
| Cash and cash equivalents at end of the year | | **168,538** | 601,241 |
| Analysis of the balances of cash and cash equivalents: represented by | | | |
| Bank balances and cash | | **168,538** | 601,241 |

## 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"). 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 Company's previous immediate holding company was Consen Group Holding Inc. ("Consen Group") incorporated in the British Virgin Islands ("BVI") and its previous ultimate holding company was Consen Investments Holding Inc. incorporated in BVI. On 23 June 2016, Mr. Xuan Rui Guo ("Mr. Xuan"), the Chairman and an executive director of the Company, and Araco Investment Limited ("Araco"), a company incorporated in BVI and indirectly wholly-owned by Mr. Xuan, entered into a sale and purchase agreement ("SPA") with, among others, Consen Group, pursuant to which Araco agreed to acquire 457,933,541 shares of the Company from Consen Group, representing approximately 44.62% equity interest of the Company. Up to 9 September 2016, approximately 29.82% equity interest of the Company held by the public has been acquired by Araco through a following conditional mandatory cash offer (the "Share Offer") upon the completion of the SPA on 24 June 2016. Since then, Araco holds approximately 74.44% equity interest of the Company and is the new immediate holding company while the ultimate controlling shareholder is Mr. Xuan.

The activities of its subsidiaries are set out in Note 48.

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 IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle |

Except as described below, 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.

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

**Amendment to IAS 1 *Disclosure Initiative***

The Group has applied the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. To give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position, the ordering of certain notes have been revised, specifically, information related to share-based payment transactions, retirement benefits scheme and financial instruments was reordered to note 40, 41 and 46.

In addition, a certain item previously presented as the financing cash flows was presented as operating cash flows in the consolidated statement of cash flow as the management considers such reclassification better reflects the substance of the relevant cash flows. Comparative figures has not been restated as in the opinion of the directors the amount is immaterial.

Other than the above presentation and disclosure changes, the application of the amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

The Group has not early applied the following new 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 and the related Amendments[1] |
| IFRS 16 | Leases[2] |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration[1] |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1] |
| Amendments to IFRS 15 | Clarifications to IFRS 15 Revenue from Contracts with Customers[1] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IAS 7 | Disclosure Initiative[4] |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[4] |
| Amendments to IAS 40 | Transfers of Investment Property[1] |
| Amendments to IFRSs | Annual Improvements to IFRS Standards 2014-2016 Cycle[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 a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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

**Amendment to IAS 1 *Disclosure Initiative* – 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 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of IFRS 9 *Financial Instruments*: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). 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 recognised 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 recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the Company anticipates that the adoption of IFRS 9 in the future may have impact on the classification and measurement of the Group's financial assets set out below:

- The Group's AFS financial assets which are those currently stated at cost less impairment will either be measured as fair value through profit or loss ("FVTPL") or be designated as FVTOCI (subject to fulfillment of the designation criteria).

- The expected credit loss model may result in early provision of credit losses which are not yet incurred to the Group's financial assets measured at amortised cost.

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***

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 recognise 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: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises 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.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligation, principal versus agent consideration, as well as licensing application guidance.

The Directors are in the process of assessing the potential impacts of IFRS 15 in respect of the Group contracts with customers, in particular, the identification of performance obligations under IFRS 15 and the allocation of total consideration to the respective performance obligations that will be based on relative fair values. Contracts which contain more than one performance obligations (for example, sales of goods and rendering of other services) will be allocated over the sale of goods, the warranty service and follow-up service based on relative fair values, which may affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

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

**IFRS 16 *Leases***

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications amongst other. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and financing cash flows respectively.

In contrast to lessee accounting IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB22,062,000 as disclosed in Note 43. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurements, presentation and disclosure as indicated above and prepaid lease payments in the consolidated statement of financial position will be reclassified as right-of-use assets. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

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

**Amendments to IAS 7 *Disclosure Initiative***

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

## 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 of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain 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 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

The principal accounting policies are set out below.

**Basis of consolidation**

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

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### 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 relevant components of equity including reserves 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 after re-attribution of the relevant equity components, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

### Business combinations

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

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

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

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

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Goodwill – continued**

A CGU (or group of CGUs) 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 CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU 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 (or group of CGUs). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

**Investments in associates and joint ventures**

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

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

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

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

The 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 recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Investments in associates and joint ventures – continued**

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss be recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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 recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

**Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed. When the sales contract includes an identifiable amount for warranty service, that amount is deferred and recognised as revenue over the period during which the service is performed. Service fees received in advance are recorded as deferred income and recognised as service fee income when the services are rendered.

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

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

**Property, plant and equipment**

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

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

Properties in the course of construction for production or supply of goods or services, or for administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use.

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

***Leasehold land and building***

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

To the extent the allocation of the lease payment can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Government grants**

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

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

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

**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 recognised as an expense when employees have rendered service entitling them to the contributions.

**Short-term and other long-term employee benefit**

Short-term employee benefits are recognised at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

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

***Share options granted to employees***

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

***Share options granted to employees – continued***

When the share options are cancelled or settled during the vesting period, the amount that otherwise would have been recognised for services received over the remainder of the vesting period recognised immediately and any payment made to the employee on the cancellation or settlement shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date.

**Taxation**

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

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

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Intangible assets**

***Intangible assets acquired separately***

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

***Research and development expenditure***

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

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

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

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

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

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

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

An intangible asset is derecognised 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 recognised in profit or loss when the asset is derecognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)**

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 CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised 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 recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at 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 FVTPL are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into loans and receivables and AFS financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

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

*Financial assets at fair value through profit or loss*

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

A financial asset is classified as held for trading if:

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Financial instruments – continued

#### *Financial assets – continued*

*Financial assets at fair value through profit or loss – continued*

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

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item.

*Loans and receivables*

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*AFS financial asset*

AFS financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group classified certain unlisted equity security as AFS financial assets.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

For AFS 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).

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial assets – continued***

*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 all financial assets, objective evidence of impairment could include:

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

***Financial liabilities and equity instruments***

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Financial instruments – continued**

***Financial liabilities and equity instruments – continued***

*Equity instruments*

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

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

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Financial liabilities at amortised cost*

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

*Derivative financial instruments*

Derivatives are initially recognised 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 recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

***Derecognition***

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

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

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period in which the estimate is revised if the revision affects only that reporting period, or in the reporting period of the revision and future reporting periods if the revision affects both current and future reporting periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the 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.

**Estimated impairment of trade and other receivables**

For trade receivables and other receivable when there is objective evidence that the asset is impaired, the amount of the impairment loss recognised is the difference between the carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss, if applicable.

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 if applicable. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the aggregate carrying amount of trade and other receivables (net of allowance for doubtful debts), was approximately RMB1,211,586,000 (2015: RMB1,479,686,000). 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 2016, the carrying amount of trademarks with indefinite useful lives was RMB23,827,000 (2015: RMB23,827,000). Details of the recoverable amount calculation are disclosed in Note 21.

## 5. REVENUE

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Sales of goods | | |
| System sales | 471,093 | 571,534 |
| Trading of equipment | 69,567 | 25,637 |
| Software sales | 41,651 | 79,443 |
| Industrial control valves sales | 325,488 | 628,238 |
| | 907,799 | 1,304,852 |
| Provision of service | | |
| Provision of maintenance and engineering services | 184,926 | 252,060 |
| Design and consulting services | 102,534 | 84,071 |
| | 1,195,259 | 1,640,983 |

## 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 segment presentation has been changed to exclude the discontinued operations as set out in Note 12 when the Group has the plan to dispose.

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**

**2016**

| | Petrochemical RMB'000 | Railway RMB'000 | Consolidated RMB'000 |
|---|---|---|---|
| Revenue | **1,061,159** | **134,100** | **1,195,259** |
| Segment loss before tax | **(292,970)** | **(73,035)** | **(366,005)** |
| Income tax expense (credit) | **8,701** | **(756)** | **7,945** |
| Segment loss | **(284,269)** | **(73,791)** | **(358,060)** |
| Unallocated other income | | | **299** |
| Unallocated other gains and losses | | | **(19,341)** |
| Unallocated administrative expenses | | | **(14,573)** |
| Unallocated finance costs | | | **(23,222)** |
| Loss for the year from continuing operations | | | **(414,897)** |

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 (credit) 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) |

All of the segment revenue reported above is from external customers. There were no inter-segment sales in the current year (2015: 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.

Revenue and results from the discontinued operations of railway segment amounting to RMB67,949,000 and RMB15,326,000 have been excluded from the segment information for 2015.

## 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:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Segment assets** | | |
| Petrochemical | 3,176,338 | 3,167,150 |
| Railway | 465,697 | 678,544 |
| Total segment assets | 3,642,035 | 3,845,694 |
| Other assets | 44,275 | 242,543 |
| Assets classified as held for sale | 50,487 | – |
| Consolidated assets | 3,736,797 | 4,088,237 |
| **Segment liabilities** | | |
| Petrochemical | 1,677,024 | 1,183,360 |
| Railway | 287,931 | 345,244 |
| Total segment liabilities | 1,964,955 | 1,528,604 |
| Guaranteed notes | 205,567 | 616,175 |
| Other liabilities | 14,427 | 22,277 |
| Liabilities directly associated with assets classified as held for sale | 39,177 | – |
| Consolidated liabilities | 2,224,126 | 2,167,056 |

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 certain 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 and dividend payable.

## 6. SEGMENT INFORMATION – CONTINUED

**Other segment information**

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

**2016**

| | Petrochemical RMB'000 | Railway RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Addition of non-current assets (Note) | 477,692 | 1,462 | 308 | 479,462 |
| Interests in associates | 20,585 | – | – | 20,585 |
| Loss on disposal of a joint venture | – | 233 | – | 233 |
| Depreciation and amortisation | 51,510 | 8,859 | 4 | 60,373 |
| Release of prepaid lease payment | 5,010 | 397 | 487 | 5,894 |
| Gain on disposal of property, plant and equipment | 80 | – | – | 80 |
| Impairment losses on trade receivables | 95,441 | 16,185 | – | 111,626 |
| Impairment losses on AFS financial assets | 23,047 | – | – | 23,047 |
| Share of loss of associates | 2,507 | – | – | 2,507 |
| Share of profit of a joint venture | – | 1,597 | – | 1,597 |
| Interest income | 435 | 514 | 299 | 1,248 |
| Interest expense | 20,771 | 6,796 | 23,222 | 50,789 |

2015

| | Petrochemical RMB'000 | Railway RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Addition of non-current assets (Note) | 200,837 | 21,768 | 150 | 222,755 |
| Interests in associates | 23,092 | – | – | 23,092 |
| Interests in a joint venture | – | 5,433 | – | 5,433 |
| Depreciation and amortisation | 49,287 | 12,901 | 2 | 62,190 |
| Release of prepaid lease payment | 2,383 | 397 | 487 | 3,267 |
| Gain (loss) 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 |

Note: Non-current assets included property, plant and equipment, intangible assets, prepaid lease payments and deposit for acquisition of property, plant and equipment.

## 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) | |
|---|---|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 | **2016** **RMB'000** | 2015 RMB'000 |
| PRC | **1,107,253** | 1,555,857 | **1,268,298** | 861,677 |
| Overseas countries | **88,006** | 85,126 | **5,205** | 3,984 |
| | **1,195,259** | 1,640,983 | **1,273,503** | 865,661 |

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 analysed 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:

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| Petrochemical – Customer A (Note) | **N/A** | 236,710 |
| Petrochemical – Customer B | **125,330** | 166,326 |

Note: During the current year, Customer A did not contribute over 10% of the total sale of the Group.

## 7. OTHER INCOME

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Bank interest income | **1,248** | 2,975 |
| Value added tax ("VAT") refund (Note i) | **7,625** | 11,986 |
| Government grant (Note ii) | **20,572** | 21,873 |
| Net relocation compensation (Note 37 ii(c)) | **43,734** | – |
| Others | **1,649** | 1,473 |
| | **74,828** | 38,307 |

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 37, 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 recognised at the time the grants are receivable and the corresponding expenses has already been incurred and recognised in the profit or loss.

## 8. OTHER GAINS AND LOSSES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Net foreign exchange loss (Note) | **(17,198)** | (30,385) |
| Gain (loss) on disposal of property, plant and equipment | **80** | (180) |
| Loss on embedded derivative financial asset | **–** | (47) |
| Early redemption premium of guaranteed notes (Note 35) | **(5,342)** | (14,767) |
| Allowance on bad and doubtful debts | **(111,626)** | (124,459) |
| Loss on disposal of a joint venture (Note 23) | **(233)** | – |
| Impairment losses recognised on AFS financial assets | **(23,047)** | – |
| Impairment losses recognised on intangible assets | **–** | (119,134) |
| Impairment losses recognised on goodwill | **–** | (60,125) |
| | **(157,366)** | (349,097) |

Note: The amount includes exchange loss relating to the translation of guaranteed notes from United States Dollar ("US$") to RMB amounting to RMB16,129,000 during the current year (2015: RMB39,822,000) (Note 35).

## 9. FINANCE COSTS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest on bank borrowings | **30,836** | 22,550 |
| Interest on guaranteed notes | **23,222** | 72,107 |
| Interest on corporate bonds (Note 36) | **4,042** | – |
| Interest on long term payable | **3,747** | – |
| | **61,847** | 94,657 |
| Less: Amount capitalised under construction in progress | **(11,058)** | (641) |
| | **50,789** | 94,016 |

During the current year, interests capitalised of RMB11,058,000 (2015: RMB459,000) arose from bank borrowings and long term payable specifically for the purpose of obtaining qualifying assets with a capitalisation rate of 5.70% per annum. In prior year, borrowing cost capitalised of RMB182,000 arose from the pool of general borrowings calculated by applying a weighted average capitalisation rate of 5.35% per annum to expenditure on qualifying assets.

## 10. INCOME TAX EXPENSES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Current tax charge of continuing operations comprises: | | |
| PRC enterprise income tax | **22,862** | 34,959 |
| Hong Kong Profits Tax | **–** | 2,261 |
| Other jurisdictions | **10** | 3 |
| Underprovision in prior year (Note) | **3,460** | – |
| | **26,332** | 37,223 |
| Deferred tax credit (Note 24) | **(34,277)** | (25,020) |
| | **(7,945)** | 12,203 |

Note: Ningxia Fei Mai Sen Process Control Technology Company Limited ("Ningxia Fei Mai Sen") had provided income tax at preferential rate of 12.5% in prior years on the basis that it would be able to enjoy the tax concession applicable to "Software Manufactures". During the current year, Ningxia Hui Autonomous Region Office, State Administration of Taxation notified Ningxia Fei Mai Sen that the tax concession is not applicable to the entity and accordingly Ningxia Fei Mai Sen need to pay income tax at normal income tax rate of 25%, retrospectively. This resulted in an underprovision of income tax in prior years and the Group made such provision in 2016 accordingly.

## 10. INCOME TAX EXPENSES – CONTINUED

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

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

During the current year, Beijing Hengtai Rixin Software Technology Company Limited ("Beijing Hengtai") is under the third 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 the prior year. No provision has been made as the Group has no assessable profit for the current year.

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 before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Loss before taxation from continuing operations | **(422,842)** | (351,316) |
| Tax at the PRC income tax rate of 25% (2015: 25%) | **(105,711)** | (87,829) |
| Tax effect of: | | |
| Share of results of associates | **627** | 394 |
| Share of results of a joint venture | **(399)** | (369) |
| Expenses not deductible for tax purpose | **21,358** | 35,734 |
| Income not taxable for tax purpose | **(10,563)** | (8,780) |
| Impairment losses on goodwill that are not deductible | **–** | 15,031 |
| Tax losses not recognised | **75,148** | 39,788 |
| Utilisation of tax losses previously not recognised | **(1,163)** | (778) |
| Deductible temporary differences not recognised | **5,586** | 22,345 |
| Different jurisdictions tax rates of subsidiaries | **–** | (1,179) |
| Tax benefit granted to certain PRC subsidiaries | **3,712** | (6,152) |
| Underprovision in respect of prior years | **3,460** | – |
| Intra-group re-organisation by transfer of equity interest of a PRC subsidiary | **–** | 3,998 |
| Tax (credit) charge for the year for continuing operations | **(7,945)** | 12,203 |

## 10. INCOME TAX EXPENSES – CONTINUED

Under the PRC tax law, withholding tax of 10% or 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 recognised amounted to approximately RMB680,814,000 (2015: RMB994,404,000) 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 FOR THE YEAR FROM CONTINUING OPERATIONS

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Depreciation of property, plant and equipment | 47,836 | 41,484 |
| Amortisation of intangible assets included in | | |
| – Administrative expenses | – | 7,787 |
| – Cost of sales | 12,537 | 12,919 |
| | 12,537 | 20,706 |
| Total depreciation and amortisation | 60,373 | 62,190 |
| Capitalised in inventories | (36,676) | (28,691) |
| | 23,697 | 33,499 |
| Auditors' remuneration | 2,050 | 3,322 |
| Release of prepaid lease payments | 5,894 | 3,267 |
| Operating leases payments in respect of rented premises | 18,171 | 18,089 |
| Staff costs (including directors' emoluments in Note 13): | | |
| Salaries and other benefits | 277,224 | 320,020 |
| Retirement benefits scheme contributions | 18,682 | 20,826 |
| Equity-settled share-based payments | 2,094 | 3,176 |
| Total staff cost | 298,000 | 344,022 |
| Capitalised in inventories | (111,583) | (150,286) |
| | 186,417 | 193,736 |
| Cost of inventories recognised as an expense | 1,028,434 | 1,098,347 |

## 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 prior reporting period are set out below.

| | Period from 1 January 2015 to 26 May 2015 RMB'000 |
|---|---|
| **Profit for the period from discontinued operations** | |
| Revenue | 67,949 |
| Cost of sales | (33,715) |
| Gross profit | 34,234 |
| Other income | 9,681 |
| Other gains and losses | 658 |
| Selling and distribution expenses | (3,804) |
| Administrative expenses | (14,797) |
| Research and development expenses | (6,282) |
| Other expenses | (1,566) |
| Finance costs | (114) |
| Profit before taxation | 18,010 |
| Income tax expenses: | |
| Current tax | (1,656) |
| Deferred tax | (1,028) |
| Profit for the period | 15,326 |
| Gain recognised on disposal of a subsidiary | 269,947 |
| Attributable income tax expense | (68,012) |
| Profit for the period from discontinued operations | 217,261 |
| Profit for the period from discontinued operations attributable to owners of the Company | 213,690 |
| **Profit for the period from discontinued operations have been derived after charging (crediting):** | |
| Finance costs | 114 |
| Depreciation of property, plant and equipment | 2,185 |
| Amortisation of intangible assets | 3,425 |
| Gain on disposal of property, plant and equipment | – |
| (Reversal) allowance on bad and doubtful debts | (658) |
| Interest income | (153) |
| **Cash flows from discontinued operations** | |
| Net cash inflows from operating activities | 1,872 |
| Net cash outflows from investing activities | (20,412) |
| Net cash outflows from financing activities | (47,412) |
| Net cash outflows | (65,952) |

## 12. DISCONTINUED OPERATIONS – CONTINUED

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

| | RMB'000 |
|---|---|
| Non-current Assets | |
| Property, plant and equipment | 8,681 |
| Intangible assets | 260,738 |
| Deferred tax assets | 24,961 |
| | 294,380 |
| Current Assets | |
| Inventories | 76,467 |
| Trade and bills receivables | 236,402 |
| Other receivables and prepayments | 15,466 |
| Amounts due from customers for contract work | 44,951 |
| Pledged bank deposits | 29,145 |
| Bank balances and cash | 46,277 |
| | 448,708 |
| Current Liabilities | |
| Trade and bills payables | 78,619 |
| Other payables, deposits received and accruals | 42,817 |
| Income tax payable | 533 |
| | 121,969 |
| Non-current Liabilities | |
| Deferred tax liabilities | 34,504 |
| Net assets disposed of | 586,615 |

**Gain on disposal of a subsidiary**

| | |
|---|---|
| Consideration received | 811,650 |
| Net assets disposed of | (586,615) |
| Non-controlling interests | 136,681 |
| Goodwill derecognised on the disposal | (72,777) |
| Transaction cost of the disposal | (18,992) |
| Gain on the disposal before taxation | 269,947 |

**Net cash inflow on disposal of a subsidiary**

| | |
|---|---|
| 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:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | 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 (Note i) | – | 761 | 47 | – | 63 | 871 |
| Mr. Kuang Jian Ping (Note ii) | – | 507 | 16 | – | 89 | 612 |
| Mr. Huang Zhi Yong (Note ii) | – | 502 | 10 | – | 89 | 601 |
| Mr. Wang Chuen Sheng (Note iii) | – | 302 | – | – | – | 302 |
| Sub-total | – | 2,072 | 73 | – | 241 | 2,386 |
| Independent non-executive directors | | | | | | |
| Mr. Wang Tai Wen | 158 | – | – | – | 4 | 162 |
| Mr. Ng Wing Fai | 210 | – | – | – | 4 | 214 |
| Mr. Sui Yong Bin (Note iv) | 103 | – | – | – | – | 103 |
| Mr. Zhang Xin Zhi (Note v) | 54 | – | – | – | – | 54 |
| Sub-total | 525 | – | – | – | 8 | 533 |
| Total | 525 | 2,072 | 73 | – | 249 | 2,919 |

| | 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 (Note i) | – | 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 |

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

(i) 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.

(ii) Mr. Kuang Jian Ping and Mr Huang Zhi Yong had resigned as the executive director on August 26, 2016.

(iii) Mr. Wang Chuen Sheng had been appointed as the executive director on August 26, 2016.

(iv) Mr. Sui Yong Bin has resigned as an independent non-executive director on August 26, 2016.

(v) Mr. Zhang Xin Zhi had been appointed as an independent non-executive on August 26, 2016.

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

## 14. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included none of the Directors (2015: nil) for the year ended 31 December 2016, whose emoluments are disclosed in Note 13 above. The emoluments of the five highest paid individuals for the current and prior years are as follows:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Salaries and other benefits | **6,077** | 5,459 |
| Contributions to retirement benefits scheme | **271** | 390 |
| Performance related incentive payments | **1,159** | 1,821 |
| Equity-settled share-based payments | **57** | 124 |
| | **7,564** | 7,794 |

Their emoluments were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2016** | 2015 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| HK$1,500,001 to HK$2,000,000 | **3** | 3 |
| HK$2,000,001 to HK$2,500,000 | **1** | 2 |

## 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 2016 (2015: Nil).

## 16. (LOSS) EARNINGS PER SHARE

| | 2016<br>RMB Cents | 2015<br>RMB Cents |
|---|---|---|
| Basic/diluted (loss) earnings per share | | |
| From continuing operations | **(38.08)** | (31.06) |
| From discontinued operations | **–** | 20.82 |
| Total basic/diluted loss per share | **(38.08)** | (10.24) |

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

**(Loss) earnings**

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Attributable to the owners of the Company: | | |
| Loss for the year | **(390,757)** | (105,114) |
| Less: Profit for the year from discontinued operations | **–** | (213,690) |
| Loss used for the purposes of basic and diluted loss per share from continuing operations | **(390,757)** | (318,804) |

**Weighted average number of shares**

| | 2016<br>'000 shares | 2015<br>'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 years did not take into account the share options of the Company issued on 24 July 2014 (Note 40) 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 2015 | 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) |
| Derecognised 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 |
| Additions | 3,875 | 1,538 | 6,947 | 3,265 | 285,179 | 300,804 |
| Transfers | 72,843 | – | 2,164 | – | (75,007) | – |
| Disposals | – | – | (430) | (3,616) | – | (4,046) |
| Reclassified as held for sale | – | – | (4,134) | (1,147) | – | (5,281) |
| At 31 December 2016 | 476,824 | 10,902 | 268,191 | 30,265 | 329,435 | 1,115,617 |
| DEPRECIATION | | | | | | |
| At 1 January 2015 | 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 |
| Provided for the year | 14,525 | 390 | 31,044 | 1,877 | – | 47,836 |
| Disposals | – | – | (402) | (2,063) | – | (2,465) |
| Reclassified as held for sale | – | – | (3,356) | (1,033) | – | (4,389) |
| At 31 December 2016 | 65,298 | 7,876 | 136,051 | 22,474 | – | 231,699 |
| CARRYING VALUES | | | | | | |
| At 31 December 2016 | 411,526 | 3,026 | 132,140 | 7,791 | 329,435 | 883,918 |
| At 31 December 2015 | 349,333 | 1,878 | 154,879 | 8,070 | 119,263 | 633,423 |

## 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 2016, a building with a carrying value of RMB171,225,000 is in the process of obtaining property certificates (2015: RMB102,309,000).

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 analysed as follows:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| CARRYING AMOUNT | | |
| At 1 January | **139,749** | 109,669 |
| Addition | **143,578** | 33,347 |
| Released to profit or loss | **(5,894)** | (3,267) |
| At 31 December | **277,433** | 139,749 |
| Analysed for reporting purpose as: | | |
| Non-current asset | **271,119** | 136,315 |
| Current asset | **6,314** | 3,434 |
| | **277,433** | 139,749 |

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 2015 | 85,749 | 129,804 | 291,082 | 22,546 | 35,550 | 564,731 |
| Additions | – | 22,753 | – | – | – | 22,753 |
| Derecognised 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 |
| Reclassified as held for sale | – | (29,584) | – | – | – | (29,584) |
| At 31 December 2016 | 23,827 | 73,003 | 101,080 | 22,546 | 35,550 | 256,006 |
| AMORTISATION AND IMPAIRMENT | | | | | | |
| At 1 January 2015 | – | 26,621 | 56,042 | 12,787 | 6,221 | 101,671 |
| Amortisation expense | – | 10,201 | 6,872 | 3,503 | 3,555 | 24,131 |
| Impairment losses recognised 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 |
| Amortisation expense | – | 9,484 | – | 3,053 | – | 12,537 |
| Reclassified as held for sale | – | (29,584) | – | – | – | (29,584) |
| At 31 December 2016 | – | 30,760 | 101,080 | 19,343 | 35,550 | 186,733 |
| CARRYING VALUES | | | | | | |
| At 31 December 2016 | 23,827 | 42,243 | – | 3,203 | – | 69,273 |
| At 31 December 2015 | 23,827 | 51,727 | – | 6,256 | – | 81,810 |

Note: Development costs capitalised 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 amortised 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 recognised in the prior year**

During the prior year, the Directors reviewed the biodiesel related non-patented technologies used in the Group's petrochemical reportable segment and determined that the declines in crude oil prices corroded completely the economical efficiency of these assets. These assets were individually considered to be fully impaired and the impairment loss of RMB25,774,000 was recognised in the profit or loss in 2015.

In performing the annual impairment review for goodwill and intangible assets through estimating the recoverable amounts of the CGUs to which the goodwill and intangible assets were allocated, impairment losses for goodwill, development costs and licenses were recognised to the profit or loss in 2015. The details of the impairment losses recognised 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 |
|---|---|---|---|---|
| Beijing Transportation Unit (Note i) | 3,397 | 27,221 | – | 30,618 |
| Nanjing Unit (Note ii) | 56,728 | – | 66,139 | 122,867 |
| Impairment losses | 60,125 | 27,221 | 66,139 | 153,485 |

Notes:

(i) Beijing Transportation Unit represented Beijing Consen Transportation Technology Company Limited ("Beijing Transportation"), the recoverable amount of which as at 31 December 2015 was approximately RMB1,254,000.

(ii) Nanjing Unit included Nanjing Huashi Power Equipment Company Limited ("Nanjing Power Equipment") and Nanjing Huashi Electronic Scientific Company Limited ("Nanjing Huashi"), the recoverable amount of which as at 31 December 2015 was approximately RMB166,820,000.

## 20. GOODWILL

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| COST | | |
| At 1 January | 69,015 | 141,792 |
| Eliminated on disposal of a subsidiary (Note 12) | – | (72,777) |
| At 31 December | 69,015 | 69,015 |
| IMPAIRMENT | | |
| At 1 January | 60,125 | – |
| Impairment losses recognised (Note 19) | – | 60,125 |
| At 31 December | 60,125 | 60,125 |
| CARRYING VALUE | | |
| At 31 December | 8,890 | 8,890 |

## 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 three CGUs as follows, including three (2015: three) subsidiaries engaged in petrochemical segment.

| | Goodwill | | Trademarks | |
|---|---|---|---|---|
| | 2016 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2015 RMB'000 |
| **Petrochemical** | | | | |
| – Tri-sen Systems Corporation (Unit A) | – | – | 546 | 546 |
| – Beijing Haidian Zhongjing Engineering Design and Software Technology Company Limited ("Zhongjing") (Unit B) | 8,890 | 8,890 | – | – |
| – Wuzhong Instrument Company Limited ("Wuzhong Instrument") (Unit C) | – | – | 23,281 | 23,281 |
| Total | 8,890 | 8,890 | 23,827 | 23,827 |

## 21. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS – CONTINUED

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) | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Unit A | **11.9%** | 11.8% | **15%** | 15% |
| Unit B | **12.5%** | 14.7% | **5%** | 5% |
| Unit C | **14.1%** | 13.9% | **13%** | 10% |

Note: The cash flows of the respective CGUs beyond the five-year period are extrapolated using a steady growth rate of 3% (2015: 3%). The growth rates are based on the relevant industry forecasts and do not exceed the industry average long-term growth rates.

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

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

## 22. INTERESTS IN ASSOCIATES

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Cost of investments in associates | **26,041** | 26,041 |
| Share of post-acquisition loss and other comprehensive income, net of dividends received | **(5,456)** | (2,949) |
| | **20,585** | 23,092 |

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 | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | **2016** | 2015 | |
| 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 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 |

## 22. INTERESTS IN ASSOCIATES – CONTINUED

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

**Summarised financial information of material associate**

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

| **Liaoning Steam Turbine** | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Current assets | **63,437** | 34,833 |
| Non-current assets | **84,558** | 85,163 |
| Current liabilities | **70,927** | 32,726 |

| **Liaoning Steam Turbine** | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Revenue | **25,166** | 20,920 |
| Loss for the year | **(10,202)** | (6,376) |
| Total comprehensive expenses for the year | **(10,202)** | (6,376) |

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

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Net assets of Liaoning Steam Turbine | **77,068** | 87,270 |
| Proportion of the Group's ownership interest in Liaoning Steam Turbine | **25%** | 25% |
| Carrying amount of the Group's interest in Liaoning Steam Turbine | **19,267** | 21,817 |

**Aggregate information of associate that is not individually material**

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| The Group's share of profits | **44** | 19 |
| The Group's share of total comprehensive income | **44** | 19 |
| Aggregate carrying amount of the Group's interests in the associate | **1,318** | 1,275 |

## 23. INTEREST IN A JOINT VENTURE

In November 2016, the Group disposed the interest in the joint venture named 中國南車長江(澳洲)車輛技術服務有限公司 (CSR (Australia) Rolling Stock Services Company Pty Ltd, "CSR Australia") to a third party for proceed of Australian Dollar ("AU$") 980,000 (approximately equivalent to RMB5,059,000). This transaction has resulted in the recognition of a loss in profit or loss, calculated as follows:

| | RMB'000 |
|---|---|
| Proceeds of disposal | 5,059 |
| Less: carrying amount on the date of disposal | (5,062) |
| Cumulative exchange differences reclassified from equity to profit or loss | (230) |
| Loss on the disposal of a joint venture (Note 8) | (233) |

## 24. DEFERRED TAX ASSETS/LIABILITIES

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

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Deferred tax assets | **66,486** | 32,209 |
| Deferred tax liabilities | **(16,640)** | (16,640) |
| | **49,846** | 15,569 |

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

| | Impairment losses on trade and other receivables RMB'000 | Deferred income RMB'000 | Impairment losses on AFS financial assets RMB'000 | Fair value adjustment of intangible assets (Note i) RMB'000 | Undistributed profits of subsidiaries RMB'000 | Other temporary differences (Note ii) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2015 | 29,086 | 7,150 | – | (44,544) | (16,640) | 6,982 | (17,966) |
| Credit (charge) to profit or loss | 8,699 | 9,582 | – | 10,951 | – | (5,240) | 23,992 |
| Derecognised on disposal of a subsidiary | (23,584) | – | – | 33,593 | – | (466) | 9,543 |
| At 31 December 2015 | 14,201 | 16,732 | – | – | (16,640) | 1,276 | 15,569 |
| Credit to profit or loss | 16,572 | 13,511 | 3,457 | – | – | 737 | 34,277 |
| At 31 December 2016 | **30,773** | **30,243** | **3,457** | **–** | **(16,640)** | **2,013** | **49,846** |

Notes:

(i) Deferred tax liabilities of fair value adjustment recognised 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 amortisation of intangible assets and VAT refunds.

## 24. DEFERRED TAX ASSETS/LIABILITIES – CONTINUED

As at 31 December 2016, the Group had unused tax losses of approximately RMB774,935,000 (2015: RMB500,566,000) available to offset against future profits of respective subsidiaries. Included in unrecognised tax losses are losses of RMB241,949,000 (2015: RMB221,000,000) that may be carried forward indefinitely.

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| 2016 | – | 25,200 |
| 2017 | 24,770 | 26,630 |
| 2018 | 58,247 | 60,522 |
| 2019 | 53,641 | 54,155 |
| 2020 | 113,059 | 113,059 |
| 2021 | 283,269 | – |
| Total | 532,986 | 279,566 |

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

## 25. AFS FINANCIAL ASSETS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Unlisted equity investments, at cost less impairment | 41,170 | 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 holds 0.25% to 9.99% equity interests in these private entities.

During the reporting period, impairment was identified on one of the invested private entities mainly due to the declines in crude oil prices and impairment losses amounting to RMB23,047,000 (2015: Nil) were recognised in the profit and loss under "other gains and losses" (Note 8).

During the year ended 31 December 2016, the Group did not receive dividend income from these equity investments (2015: nil).

## 26. INVENTORIES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Raw materials | **321,949** | 486,822 |
| Work in progress | **97,433** | 101,119 |
| Finished goods | **62,342** | 47,190 |
| | **481,724** | 635,131 |

Details of inventories pledged are set out in Note 42.

## 27. TRADE AND BILLS RECEIVABLES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Trade receivables | **1,399,247** | 1,530,466 |
| Less: impairment losses on trade receivables | **(261,849)** | (178,484) |
| | **1,137,398** | 1,351,982 |
| Bills receivable | **282,923** | 250,576 |
| | **1,420,321** | 1,602,558 |

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| US$ | **83,345** | 74,938 |
| Japanese Yen ("JPY") | **3,247** | 4,013 |
| European Dollar ("EUR") | **672** | 4,483 |
| | **87,264** | 83,434 |

At 31 December 2016, included in trade receivables are retention receivable of RMB70,697,000 (2015: RMB104,539,000). 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 2016, retention receivables with a carrying amount of RMB50,065,000 (2015: RMB69,625,000) are expected to be collected in 12 months from the end of the reporting period.

## 27. TRADE AND BILLS RECEIVABLES – CONTINUED

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:

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 0 – 90 days | **568,268** | 646,311 |
| 91 – 180 days | **313,135** | 335,337 |
| 181 – 365 days | **150,282** | 258,571 |
| 1 – 2 years | **384,256** | 345,980 |
| 2 – 3 years | **4,380** | 16,359 |
| | **1,420,321** | 1,602,558 |

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 77% (2015: 79%) of the trade receivables that are neither past due nor impaired are from customers with good payment history.

As at 31 December 2016, trade receivables with a carrying amount of RMB333,511,000 (2015: RMB335,963,000) 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:

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 1 – 2 years | **333,511** | 335,963 |
| Total | **333,511** | 335,963 |

## 27. TRADE AND BILLS RECEIVABLES – CONTINUED

Movements in the allowance for doubtful debts

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| At 1 January | **178,484** | 201,663 |
| Impairment losses recognised on trade receivables | **133,420** | 155,089 |
| Amounts recovered during the year | **(21,823)** | (31,288) |
| Amounts written off as uncollectible | **(2,041)** | (865) |
| Exchange adjustment | **2,295** | – |
| Reclassified as held for sale | **(28,486)** | – |
| Eliminated on disposal of a subsidiary | **–** | (146,115) |
| At 31 December | **261,849** | 178,484 |

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

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

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

**As at 31 December 2016**

| | Bills receivable discounted to banks<br>RMB'000 | Bills receivable endorsed to suppliers<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| Carrying amount of: | | | |
| Transferred assets | **90,887** | **136,615** | **227,502** |
| Associated liabilities | **(90,887)** | **(136,615)** | **(227,502)** |
| Net position | **–** | **–** | **–** |

## 27. TRADE AND BILLS RECEIVABLES – CONTINUED

As at 31 December 2015

| | Bills receivable discounted to banks RMB'000 | Bills receivable endorsed to suppliers RMB'000 | Total RMB'000 |
|---|---|---|---|
| Carrying amount of: | | | |
| Transferred assets | 2,780 | 137,442 | 140,222 |
| Associated liabilities | (2,780) | (137,442) | (140,222) |
| Net position | – | – | – |

During the reporting period, the Group has discounted bills receivable amounting to RMB163,468,000 (2015: RMB18,941,000) to banks for short term financing. At the end of the reporting period, the associated borrowings amounted to RMB90,887,000 (2015: RMB2,780,000). The relevant cash flow of these borrowings are presented as operating cash flows in the consolidated statement of cash flow as the management considers the cash flows are in substance, the receipts from trade customers.

## 28. OTHER RECEIVABLES AND PREPAYMENTS

An analysis of other receivables and prepayments is as follows:

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Prepayments to suppliers | **71,142** | 49,250 |
| Other receivables | **78,263** | 131,849 |
| Less: impairment losses on other receivables | **(4,075)** | (4,145) |
| | **145,330** | 176,954 |

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

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| JPY | **25,152** | 68,225 |
| EUR | **4,438** | 10,648 |
| | **29,590** | 78,873 |

**Movements in the allowance for doubtful debts**

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| At 1 January | **4,145** | 4,145 |
| Impairment losses recognised on other receivables | **29** | – |
| Reclassified as held for sale | **(99)** | – |
| At 31 December | **4,075** | 4,145 |

## 29. PLEDGED BANK DEPOSITS

The pledged bank deposits have been pledged to secure banking facilities granted to the Group. The pledged bank deposits amounting to RMB61,934,000 (2015: RMB73,576,000) have been pledged to secure short-term banking facilities and are therefore classified as current assets.

The remaining deposits amounting to RMB405,000 (2015: RMB4,731,000) 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% (2015: 0.7% to 3%) per annum as at 31 December 2016.

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

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

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| US$ | **8,162** | 11,907 |

## 30. 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 0.3% to 1.75% (2015: 0.35%) per annum.

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

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| US$ | **21,258** | 263,801 |
| JPY | **91** | 3,019 |
| EUR | **347** | 227 |
| HK$ | **321** | 212 |
| Singapore Dollar ("SG$") | **27** | 26 |
| Great Britain Pound ("GBP") | **3** | 3 |
| AU$ | **17** | – |
| | **22,064** | 267,288 |

## 31. ASSETS CLASSIFIED AS HELD FOR SALE

On 20 December 2016, the Directors resolved to dispose of the wholly-owned subsidiary, Beijing Transportation, to an interested party at the consideration not less than its net book value. The subsidiary is expected to be sold within twelve months and has been classified as a held for sale and are presented separately in the consolidated statement of financial position.

On 16 January 2017, The Group entered into an agreement with an independent party to dispose Beijing Transportation at a consideration of RMB11,500,000. The transaction was completed on 25 January 2017.

The major classes of assets and liabilities of the proposed disposal, which were originally disclosed in the railway segment in prior years, are as follows:

| | At 31 December 2016 RMB'000 |
|---|---|
| Property, plant and equipment | 892 |
| Inventories | 17,668 |
| Trade and bills receivables | 18,375 |
| Other receivables and prepayments | 2,378 |
| Pledged bank deposits | 599 |
| Bank balances and cash | 10,575 |
| Total assets classified as held for sale | 50,487 |
| Trade and bills payables | 22,351 |
| Other payables, deposits received and accruals | 14,519 |
| Income tax payable | (693) |
| Bank borrowings – due within one year | 3,000 |
| Total liabilities directly associated with assets classified held for sale | 39,177 |

## 32. TRADE AND BILLS PAYABLES

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| 0 – 90 days | 211,664 | 242,409 |
| 91 – 180 days | 136,467 | 143,222 |
| 181 – 365 days | 70,562 | 49,529 |
| 1 – 2 years | 45,523 | 50,779 |
| Over 2 years | 21,012 | 16,471 |
| | 485,228 | 502,410 |

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

## 32. TRADE AND BILLS PAYABLES – CONTINUED

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| US$ | 39,007 | 45,834 |
| JPY | 541 | 6,801 |
| EUR | 8,130 | 5,271 |
| SG$ | 192 | 184 |
| | 47,870 | 58,090 |

## 33. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Advance from customers | 75,808 | 43,358 |
| Accrued payroll and welfare | 18,761 | 51,604 |
| Interest payable | 5,620 | 7,435 |
| Other deposits, payables and accruals | 94,671 | 100,629 |
| Construction costs payables | 123,175 | 62,140 |
| Transaction costs payable for disposal of a subsidiary | 7,000 | 12,237 |
| Other tax payable | 17,493 | 25,525 |
| | 342,528 | 302,928 |

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| JPY | 24,987 | 35,475 |

## 34. BANK BORROWINGS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Secured bank borrowings | **533,803** | 443,551 |
| The bank borrowings are repayable: | | |
| – Within one year | **333,803** | 283,551 |
| – More than one year, but not exceeding two years | **70,000** | 60,000 |
| – More than two years, but not exceeding five years | **130,000** | 100,000 |
| | **533,803** | 443,551 |
| Less: Amounts due within one year shown under current liabilities | **(333,803)** | (283,551) |
| Amounts due after one year shown under non-current liabilities | **200,000** | 160,000 |

The amounts due are based on scheduled repayment dates set out in the loan agreements. At the end of 31 December 2016 and 2015, 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:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| US$ | **10,406** | 13,694 |
| JPY | **–** | 32,969 |
| | **10,406** | 46,663 |

The floating interest rate borrowings were charged at the rates ranging from 2.36% to 6.60% (2015: 2.25% to 7.20%) per annum for the year ended 31 December 2016.

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

## 35. GUARANTEED NOTES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| US$200,000,000 guaranteed notes due 2016 | **–** | 424,817 |
| US$30,000,000 guaranteed notes due 2018 | **205,567** | 191,358 |
| | **205,567** | 616,175 |
| Less: Amounts due within one year shown under current liabilities | **–** | (424,817) |
| Amounts due after one year shown under non-current liabilities | **205,567** | 191,358 |

## 35. GUARANTEED NOTES – CONTINUED

**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 early redemption right has been recognised as embedded derivative financial asset in the prior years, and changes in fair value of the early redemption right are included in "other gains and losses" (Note 8).

During the prior 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).

On 7 January 2016, the Company early redeemed 64% of the outstanding principal amount of the 2016 Guaranteed Notes of US$42,000,000 (equivalent to approximately RMB275,713,000) at a premium of US$813,750 (equivalent to approximately RMB5,342,000) and repaid the attributable accrued and unpaid interest of US$732,500 (equivalent to approximately RMB4,809,000). The premium of RMB5,342,000 was expensed and included in "other gains and losses" in the consolidated statement of profit or loss and other comprehensive income (Note 8).

On the maturity date of 20 April 2016, the Company repaid the remaining outstanding principal amount of the 2016 Guaranteed Notes of US$23,610,000 (equivalent to approximately RMB153,236,000) and all the remaining accrued and unpaid interest of US$771,500 (equivalent to approximately RMB5,007,000).

## 35. GUARANTEED NOTES – CONTINUED

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

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| At 1 January | 424,817 | 1,160,804 |
| Repayment of guaranteed notes including early redemption premium | (434,291) | (800,403) |
| Early redemption premium of guaranteed notes recognised in profit or loss (Note 8) | 5,342 | 14,767 |
| Effective interest recognised | 4,491 | 71,118 |
| Interest paid/payable | (3,321) | (59,581) |
| Exchange differences | 2,962 | 38,112 |
| At 31 December | – | 424,817 |
| Less: Amounts due within one year shown under current liabilities | – | (424,817) |

**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.

## 35. GUARANTEED NOTES – CONTINUED

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

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:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| At 1 January | **191,358** | – |
| Proceed from issue of guarantee notes | **–** | 193,074 |
| Transaction costs for issue of guaranteed notes | **–** | (3,475) |
| Effective interest recognised | **18,731** | 989 |
| Interest paid/payable | **(17,689)** | (940) |
| Exchange differences | **13,167** | 1,710 |
| At 31 December (due after one year) | **205,567** | 191,358 |

## 36. CORPORATE BONDS

On 19 September 2016, the Company's subsidiary, Beijing Consen Automation Control Company Limited ("Beijing Consen") obtained approval by Beijing Equity Trading Centre to issue Zhongguancun innovative growth corporate bonds (中關村創新成長企業債券) (the "2019 Corporate Bonds") with the principal amount of RMB200,000,000 at an issuance cost of RMB4,944,000 and the maturity date on 18 September 2019. The 2019 Corporate Bonds, which carry fixed interest at 6% per annum, are guaranteed by an independent third party and secured by the Group's assets set out in Note 42. Annual instalment amounting to RMB944,000 will be paid to the independent third party in subsequent two years. The effective interest rate is 7.27% per annum.

The movement of the 2019 Corporate Bonds during the reporting period is as follows:

| | **2016**<br>**RMB'000** |
|---|---|
| Principal amount | **200,000** |
| Less: Direct transaction costs | **(4,944)** |
| | **195,056** |
| Effective interest recognised | **4,042** |
| Interest payable | **(3,419)** |
| At 31 December (due after one year) | **195,679** |

## 37. OTHER NON-CURRENT LIABILITIES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Long term payable (Note i) | 68,272 | 65,725 |
| Deferred income (Note ii) | 314,067 | 207,025 |
| | 382,339 | 272,750 |

Notes:

(i) On 21 December 2015, Wuzhong Instrument and 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, to support the construction of qualifying assets registered with relevant government authority.

Pursuant to the Agreement, the Investor made a capital contribution of RMB100,000,000 in cash to Wuzhong Instrument on 29 December 2015. The nominal equity interest of Beijing Consen and the Investor in Wuzhong Instrument becomes 85.71% and 14.29% respectively.

According to the Agreement, the Investor will: (1) not appoint directors or management personnel to Wuzhong Instrument 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 Instrument and not entitled to share the profit or net assets of Wuzhong Instrument; (3) retrieve the contribution amount of RMB100,000,000 on a scheduled timetable, Wuzhong Instrument 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 Instrument's registered capital reduction or other financial market exit mechanisms. Accordingly, the Directors consider that this transaction is a financing arrangement and continue to consolidate Wuzhong Instrument as a wholly-owned subsidiary of the Group.

As the registration of the construction of qualifying assets with the relevant government authority is a pre-requisite for the Investor to initiate the negotiation of the Agreement and the rate of return to the Investor is below market rate, the Directors consider such arrangement constituted a government subsidy from the government. The Group recognised the fair value of long term payable amounting to RMB65,725,000 on initial recognition by discounting the future cash flows at 5.7% per annum by reference to the Group's other long term borrowings and subsequently measured at amortised cost by using effective interest rate method. The difference amounting to RMB34,275,000 between the carrying amount of the long term payable initially recognised and the cash received as deferred income and will be released on the same basis as the deprecation of the qualifying assets.

## 37. OTHER NON-CURRENT LIABILITIES – CONTINUED

Notes:– continued

(ii) Movements of the deferred income are as follows:

| | Government grants related to assets RMB'000 (Note a) | Government grants related to income RMB'000 (Note b) | Relocation compensation RMB'000 (Note c) | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2015 | 52,605 | 6,322 | – | 58,927 |
| Addition | 104,221 | 1,502 | 50,000 | 155,723 |
| Released to profit or loss | (3,603) | (4,022) | – | (7,625) |
| At 31 December 2015 | 153,223 | 3,802 | 50,000 | 207,025 |
| Addition | 137,569 | 1,398 | 50,000 | 188,967 |
| Released to profit or loss | (3,540) | (1,500) | (76,885) | (81,925) |
| At 31 December 2016 | 287,252 | 3,700 | 23,115 | 314,067 |

Notes:

(a) Deferred income arising from government grant relating to assets represents the government subsidies obtained in relation to the purchase of the land use right and the infrastructure construction, which was included in the 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 depreciable assets;

(b) Deferred income arising from government grant relating to income represents the government subsidies obtained as compensation for the expenses on technology development when the grants are received and the corresponding research activities have not been accomplished, which was included in deferred income and recognised in profit or loss when the research and development expenses has already been fully incurred;

(c) On 21 May 2015, the Company's subsidiary, Wuzhong Instrument entered into an agreement with the municipal government of Wuzhong City of Ningxia Hui Autonomous Region in the PRC at a total compensation consideration of approximately RMB200,279,000, out of which RMB123,394,000 is compensation attributable to losses of the land use right, property, plant and unmovable equipment, and RMB76,885,000 is compensation attributable to related expenses and losses from production suspension, order default and transportation incurred during the relocation. During the current year, the relocation activities had accomplished with related expenses and losses amounting to RMB33,151,000 incurred. Accordingly, RMB76,885,000 is recognised in profit or loss. The net total relocation compensation amounting to RMB43,734,000 had been included in "other income" (Note 7). The remaining compensation received is recorded as deferred income and will be recognised as "other gain and loss" based on the transfer of property right subsequently.

## 38. SHARE CAPITAL

| | **2016** Number of shares '000 shares | **2016** Amount HK'000 | 2015 Number of shares '000 shares | 2015 Amount HK'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of HK$0.01 each | **3,000,000** | **30,000** | 3,000,000 | 30,000 |
| Issued and fully paid: | | | | |
| At 1 January and 31 December | **1,026,264** | **10,262** | 1,026,264 | 10,262 |

| | **2016** RMB'000 | 2015 RMB'000 |
|---|---|---|
| Shown in the consolidated statement of financial position | **9,548** | 9,548 |

## 39. RESERVES

### (i) Share premium

The share premium mainly comprises of (a) share premium arising from the initial public offerings of shares; and (b) contribution and distribution from/to the owners arising from the issuance and repurchase of the shares.

### (ii) Other reserves

| | **2016** RMB'000 | 2015 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-organisation | **(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 options reserve

The Group's share options 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. All share options were cancelled during the year (Note 40), whereupon the accumulated amount recognised in share options reserve had been fully transferred out.

## 40. 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 representing 10% of the shares of the Company to the Directors and certain employees of the Group (the "Grantees") to subscribe for a total of 102,626,000 ordinary shares of HK$0.01 each in the share capital of the Company under the share option scheme adopted by the Company on 16 June 2007, subject to acceptance by the Grantees.

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

All above 102,626,000 share options had been cancelled for a nominal payment of HK$0.01 for each option (the "Option Offer") accompanied with the Share Offer set out in Note 1. Subject to the Option Offer, the amount of RMB2,094,000, that would have been recognised for services received over the remainder of the vesting period, was recognised immediately as an acceleration of vesting and the total amount of HK$1,026,260 (equivalent to approximately RMB884,000) required to satisfy the cancellation of the share options was deemed as the contribution from the ultimate controlling shareholder and accounted for as a deduction from equity. The difference of RMB6,121,000 between the share options reserve of RMB7,005,000 and the payment of RMB884,000 was transferred to retained profits.

## 40. 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 the year:

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

## 40. 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 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 |

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.

The total fair value of the options calculated by using the binomial model was HK$8,880,000 (equivalent to approximately RMB7,005,000) at granted date. During the current year, the Group recognised share-based expenses of RMB2,094,000 (2015:RMB3,176,000).

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

| | |
|---|---|
| Exercise Price | HK$1.60 |
| Assumed Time to Maturity (Contractual Option Life) | 4 years |
| Risk-free Interest Rate | 1.18% |
| Annualised Volatility | 45.88% |
| Expected Dividend Yield (Annualised) | 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.

## 40. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

**Equity-settled share option scheme – continued**

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.

## 41. 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.

## 42. PLEDGE OF ASSETS

At the end of the reporting period, in addition to the bills discounted as disclosed in Note 27 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:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Buildings | **442,909** | 244,430 |
| Land use rights | **84,911** | 100,992 |
| Inventories | **86,767** | 59,955 |
| Bills receivable | **5,471** | 2,000 |
| Pledged bank deposits | **62,339** | 78,307 |
| | **682,397** | 485,684 |

The amounts disclosed above includes the assets of the Group pledged at 31 December 2016 to obtain corporate guarantee from an independent third party for available banking facilities RMB100,000,000 (2015: RMB70,000,000) and corporate bonds of RMB200,000,000 (2015: nil) granted to the Group. The aggregate carrying amount of these assets pledged to the independent third party are buildings amounting to approximately RMB117,284,000 (2015: RMB26,976,000) and land use right amounting to approximately RMB21,434,000 (2015: RMB7,532,000). In addition, the Group paid to the independent third party approximately RMB5,542,000 (2015: RMB1,575,000) for the corporate guarantees.

## 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:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Within one year | 10,657 | 15,000 |
| In the second to fifth year inclusive | 11,405 | 5,951 |
| | 22,062 | 20,951 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a lease term ranging from one to five years and rentals are fixed at the date of signing of lease agreements.

## 44. CAPITAL COMMITMENTS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements – in respect of acquisition of property, plant and equipment | 134,511 | 78,333 |

## 45. 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 optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes the bank borrowings, guaranteed notes, corporate bonds as well as long term payable disclosed in Notes 34, 35, 36 and 37 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.

## 46. FINANCIAL INSTRUMENTS

### (i) Categories of financial instruments

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalent) | 1,725,386 | 2,409,810 |
| AFS financial assets, at cost less impairment | 41,170 | 64,217 |
| **Financial liabilities** | | |
| Amortised cost | 1,737,782 | 1,861,912 |

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

The Group's major financial instruments include AFS financial assets, trade and bills receivables, other receivables, pledged bank deposits, bank balances and cash, trade and bills payables, other payables, dividend payable, bank borrowings, guaranteed notes, corporate bonds 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 summarised below.

***Credit risk***

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors 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.

## 46. 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 | |
|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 | **2016 RMB'000** | 2015 RMB'000 |
| US$ | **254,980** | 675,703 | **112,765** | 350,646 |
| JPY | **25,528** | 75,245 | **28,489** | 75,257 |
| EUR | **8,130** | 5,271 | **5,457** | 15,358 |
| HK$ | **–** | – | **321** | 212 |
| SG$ | **192** | 184 | **27** | 26 |
| GBP | **–** | – | **3** | 3 |
| TOTAL | **288,830** | 756,403 | **147,062** | 441,502 |

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% (2015: 5%) 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% (2015: 5%) change in foreign currency rates. A negative number below indicates a decrease in profit and a positive number indicates an increase in profit for the year where RMB weakens 5% (2015: 5%) against foreign currencies. For a 5% (2015: 5%) strengthening of RMB against foreign currencies, there would be an equal and opposite impact on the profit.

| | Year ended 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| US$ | **(5,937)** | (17,076) |
| JPY | **124** | 1 |
| EUR | **(112)** | 421 |

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.

## 46. 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, corporate bonds and long term payable disclosed in Note 35, 36 and 37 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's 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 (2015: 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.

| | **2016** | 2015 |
|---|---|---|
| Reasonably possible change in interest rate | **25 basis points** | 25 basis points |

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Decrease in post-tax profit for the year | | |
| as a result of increase in interest rate | **(548)** | (618) |
| as a result of decrease in interest rate | **548** | 618 |

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 2016, the Group has available unutilised banking facilities of approximately RMB305,637,000 (2015: RMB590,655,000), of which RMB99,490,000 will be mature and not revolved at January 2017.

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.

## 46. FINANCIAL INSTRUMENTS – CONTINUED

### (ii) Financial risk management objectives and policies – continued

***Liquidity risk – continued***

| At 31 December 2016 | Weighted average effective interest rate % | On demand and within 3 months RMB'000 | 3 months to 6 months RMB'000 | 6 months to 1 year RMB'000 | 1 years to 2 years RMB'000 | 2 years to 3 years RMB'000 | 3 years to 4 years RMB'000 | 4 years to 5 years RMB'000 | More than 5 years RMB'000 | Total undiscounted cash flow RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Trade and bills payables | – | 126,397 | 153,559 | 205,272 | – | – | – | – | – | 485,228 | 485,228 |
| Bank borrowings | 4.99 | 213,501 | 51,414 | 85,526 | 83,789 | 73,789 | 80,694 | – | – | 588,713 | 533,803 |
| Other payables | – | 95,898 | 44,773 | 108,556 | – | – | – | – | – | 249,227 | 249,227 |
| Dividend payable | – | 6 | – | – | – | – | – | – | – | 6 | 6 |
| 2018 Guaranteed Notes | 9.45 | – | 9,105 | 9,105 | 224,802 | – | – | – | – | 243,012 | 205,567 |
| 2019 Corporate Bonds | 7.27 | – | – | 12,943 | 12,943 | 212,000 | – | – | – | 237,886 | 195,679 |
| Long term payable | 5.70 | 300 | 300 | 600 | 1,200 | 1,200 | 1,200 | 11,200 | 95,400 | 111,400 | 68,272 |
| | | 436,102 | 259,151 | 422,002 | 322,734 | 286,989 | 81,894 | 11,200 | 95,400 | 1,915,472 | 1,737,782 |

| 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 years 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 and bills 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 | 5.70 | 300 | 300 | 600 | 1,200 | 1,200 | 1,200 | 1,200 | 106,600 | 112,600 | 65,725 |
| | | 685,123 | 391,930 | 409,953 | 88,126 | 291,513 | 31,080 | 13,290 | 106,600 | 2,017,615 | 1,861,912 |

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

### (iii) Fair value measurements of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values, except the fair value of the 2016 Guaranteed Notes at 31 December 2015, which was RMB429,943,000. The fair value had 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 reflected the credit risk of the Company which was unobservable and categorised in level 3.

## 47. RELATED PARTY TRANSACTIONS

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Salaries and other benefits | 18,184 | 18,590 |
| Retirement benefit scheme contributions | 619 | 604 |
| Equity-settled share-based payments | 405 | 658 |
| | 19,208 | 19,852 |

## 48. PARTICULAR OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2016 and 2015 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 2016 % | 2015 % | 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 |
| 日本イノベツクス株式會社 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 |
| 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 |

## 48. 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 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| 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 |
| 北京天竺興業軟件技術有限公司 Beijing Sindhu Software Company Limited (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 services |
| 北京康吉森過程控制技術有限公司 Beijing Consen Process Control Technology Company Limited (Note i) | PRC | Registered capital RMB20,000,000 | **100** | 100 | Development and trading of petrochemical automation control system |
| 北京中自化物資裝備技術有限公司 Beijing CAG Materials and Equipment Technology Company Limited (Note i) | PRC | Registered capital RMB50,000,000 | **100** | 100 | Trading of equipment of safety and critical control systems |
| 北京康吉森儀器儀錶有限公司 Beijing Consen Instrument Company Limited (Note i) | PRC | Registered capital RMB1,000,000 | **100** | 100 | Development and trading of instrument |
| 北京康吉森技術有限公司 Beijing Consen Technology Company Limited (Note i) | PRC | Registered capital RMB10,000,000 | **100** | 100 | Software development and integrated circuit design, as well as technology services |

## 48. 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 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| 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 | 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 Huashi (Note i) | PRC | Registered capital RMB51,203,265 | 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 iii) ("Nanjing Huahang Software") | PRC | Registered capital RMB500,000 | 51 | 51 | Software programming and technology services |
| 南京華航電氣設備有限公司 Nanjing Huahang Electric Equipment Company Limited (Note i and iv) ("Nanjing Huahang Electric") | PRC | Registered capital RMB3,000,000 | 32.8 | – | Design, production and sale of electric equipment |
| 吳忠儀錶有限責任公司 Wuzhong Instrument (Note i) | PRC | Registered capital RMB700,000,000 | 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 |

## 48. 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 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| 寧夏菲麥森流程控制技術有限公司 Ningxia Fei Mai Sen (Note i) | PRC | Registered capital RMB5,000,000 | 100 | 100 | Software development and design of process control products |
| 吳忠儀錶(銀川)工程技術服務有限公司 Wuzhong Engineering Services (Yinchuan) Company Limited (Note i) | PRC | Registered capital RMB20,000,000 | 100 | 100 | Provision of engineering services |
| 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 | 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 services |
| 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 | 100 | Design, development and sales of instrumentation and control products, as well as technology services |
| 寧夏中自新能源有限公司 Ningxia Zhongzi New Energy Company Limited (Note i) | PRC | Registered capital RMB10,000,000 | 100 | – | Development of new energy and sales of power generation equipment, as well as technology services |
| 寧夏中自清潔能源有限公司 Ningxia Zhongzi Clean Energy Company Limited (Note i) | PRC | Registered capital RMB2,000,000 | 100 | – | Development of new energy and sales of power generation equipment, 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 |

## 48. 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 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| 冠東資源有限公司 Crown East Resources Limited | Hong Kong | Ordinary shares US$49,200,000 | **100** | 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** | 100 | Trading of automation products |
| Zhongjing Engineering SDN BHD (Note vi) ("Zhongjing Engineering") | Brunei | N/A | **70** | – | Engineering design and consulting services |

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) Incorporated by Nanjing Huashi, 100% of the registered capital of Nanjing Huahang Software is directly held and controlled by Nanjing Huashi.

(iv) Incorporated by Nanjing Huashi and non-controlling shareholders, 64.29% of the registered capital of Nanjing Huahang Electric is directly held and controlled by Nanjing Huashi.

(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.

(vi) Incorporated by Zhongjing, 100% of the registered capital of Zhongjing Engineering is directly held and controlled by Zhongjing.

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

## 49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Investment in subsidiaries | **310,944** | 310,944 |
| Amounts due from subsidiaries | **335,911** | 293,837 |
| Property, plant and equipment | **2** | 2 |
| | **646,857** | 604,783 |
| **Current assets** | | |
| Other receivables and prepayments | **374** | 354 |
| Accounts Receivable | **558** | – |
| Dividends receivable | **9,608** | 9,608 |
| Amounts due from subsidiaries | **74,921** | 510,750 |
| Bank balances and cash | **2,184** | 5,639 |
| | **87,645** | 526,351 |
| **Current liabilities** | | |
| Other payables and accruals | **2,339** | 6,301 |
| Amounts due to subsidiaries | **7,130** | 7,674 |
| Dividend payable | **6** | 6 |
| Guaranteed notes – due within one year | **–** | 424,817 |
| | **9,475** | 438,798 |
| **Net current assets** | **78,170** | 87,553 |
| **Total assets less current liabilities** | **725,027** | 692,336 |
| **Capital and reserves** | | |
| Share capital | **9,548** | 9,548 |
| Share premium and reserves | **715,479** | 682,788 |
| **Total equity** | **725,027** | 692,336 |

## 49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY – CONTINUED

**Movement in capital and reserves**

| | Share capital RMB'000 | Share premium RMB'000 | Contribution from owners RMB'000 | Share options reserve RMB'000 | Retained profits RMB'000 | Total Equity RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2015 | 9,548 | 648,367 | – | 1,735 | 50,728 | 710,378 |
| Loss and other comprehensive expense for the year | – | – | – | – | (21,218) | (21,218) |
| Recognition of share-based payments (Note 40) | – | – | – | 3,176 | – | 3,176 |
| At 31 December 2015 | 9,548 | 648,367 | – | 4,911 | 29,510 | 692,336 |
| Profit and other comprehensive income for the year | – | – | – | – | 30,597 | 30,597 |
| Recognition of share-based payments (Note 40) | – | – | – | 2,094 | – | 2,094 |
| Effect of lapse of share options cancellation (Note 40) | – | – | 884 | (7,005) | 6,121 | – |
| At 31 December 2016 | **9,548** | **648,367** | **884** | **–** | **66,228** | **725,027** |

# FINANCIAL SUMMARY

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014 (N1)<br>RMB'000 | 2015 (N1)<br>RMB'000 | **2016**<br>**RMB'000** |
| Revenue | 2,210,754 | 2,308,801 | 1,918,510 | 1,640,983 | **1,195,259** |
| Profit (Loss) before tax | 162,753 | 122,287 | 38,662 | (351,316) | **(422,842)** |
| Income tax expense/(credit) | 34,341 | 37,338 | 27,850 | 12,203 | **(7,945)** |
| Profit (Loss) attributable to equity holder of the parent | 84,583 | 73,574 | 7,711 | (318,804) | **(414,897)** |

(N1): excluding the discontinued operations

## ASSETS AND LIABILITIES RESULTS

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | **2016**<br>**RMB'000** |
| Non-current assets | 1,252,288 | 1,324,431 | 1,376,825 | 995,343 | **1,402,149** |
| Current assets | 3,424,335 | 3,453,309 | 3,322,379 | 3,092,894 | **2,334,648** |
| Current liabilities | (1,298,132) | (1,345,108) | (1,214,177) | (1,526,308) | **(1,223,901)** |
| Net current assets | 2,126,203 | 2,108,201 | 2,108,202 | 1,566,586 | **1,110,747** |
| Total assets less current liabilities | 3,378,491 | 3,432,632 | 3,485,027 | 2,561,929 | **2,512,896** |

# CORPORATE INFORMATION

## DIRECTORS

### EXECUTIVE DIRECTORS:

Mr. Xuan Rui Guo *(Chairman)*
Mr. Wang Chuen Sheng

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Wang Tai Wen
Mr. Zhang Xin Zhi
Mr. Ng Wing Fai

## AUTHORISED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

## AUDIT COMMITTEE

Mr. Ng Wing Fai *(Chairman)*
Mr. Wang Tai Wen
Mr. Zhang Xin Zhi

## REMUNERATION COMMITTEE

Mr. Wang Tai Wen *(Chairman)*
Mr. Zhang Xin Zhi
Mr. Ng Wing Fai
Mr. Xuan Rui Guo

## NOMINATION COMMITTEE

Mr. Zhang Xin Zhi *(Chairman)*
Mr. Wang Tai Wen
Mr. Ng Wing Fai
Mr. Xuan Rui Guo

## SENIOR MANAGEMENT

Mr. Zhou Zheng Qiang
Mr. Cui Da Chao
Mr. Ma Yu Shan
Ms. Dong Yan
Mr. Duan Min
Mr. Chen Yong
Ms. Wang Yan Mei
Mr. Tian Lei
Mr. Yang Zhan Fu
Mr. Zhang Yue Ming
Mr. William Erik Barkovitz
Mr. Chow Chiu Chi

## STOCK CODE

Hong Kong Stock Exchange 569

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chow Chiu Chi, FCPA
E-mail: bensonchow@cag.com.hk

## INVESTOR RELATIONS

Mr. Chow Chiu Chi
E-mail: bensonchow@cag.com.hk

Ms. Chen Peng
E-mail: chenpeng@cag.com.hk

## WEBSITE ADDRESS

www.cag.com.hk

# CORPORATE INFORMATION

## REGISTERED OFFICE

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Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Harbour Road
Wanchai
Hong Kong

## PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN CHINA

No. 7 Anxiang Street
Area B, Tianzhu Airport Economic Development Zone
Shunyi District
Beijing
PRC

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## 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 China
Bank of Communications
Bank of Nanjing
Bank of Ningbo
Huaxia Bank
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank
HSBC Bank (China) Company Limited, Beijing Branch

## 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