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中國自動化

中國自動化集團有限公司

China Automation Group Limited

(HK stock code 0569)

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS

The board of directors of the Company (the “Board”) is pleased to announce the audited results of China Automation Group Limited and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	<i>Note</i>	2015 RMB'000	2014 RMB'000 (Re-presented) (Note 8)
Continuing operations			
Revenue	1	1,640,983	1,918,510
Cost of sales		<u>(1,143,164)</u>	<u>(1,297,566)</u>
Gross profit		497,819	620,944
Other income	3	38,307	43,732
Other gains and losses	4	(349,097)	(47,040)
Selling and distribution expenses		(147,682)	(162,188)
Administrative expenses		(219,524)	(201,511)
Research and development expenses		(76,130)	(83,976)
Other expenses		(892)	(903)
Finance costs	5	(94,016)	(130,276)
Share of results of associates		(1,575)	171
Share of results of a joint venture		<u>1,474</u>	<u>(291)</u>
(Loss) profit before taxation		(351,316)	38,662
Income tax expense	6	<u>(12,203)</u>	<u>(27,850)</u>
(Loss) profit for the year from continuing operations	7	(363,519)	10,812
Discontinued operations			
Profit for the year from discontinued operations	8	<u>217,261</u>	<u>35,933</u>
(Loss) profit for the year		<u>(146,258)</u>	<u>46,745</u>
Other comprehensive income (expense) for the year (net of tax)			
Items that maybe subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(797)	1,524
Share of translation reserve of a joint venture		<u>(261)</u>	<u>(326)</u>
		<u>(1,058)</u>	<u>1,198</u>
Total comprehensive (expense) income for the year		<u>(147,316)</u>	<u>47,943</u>
(Loss) profit for the year attributable to:			
Owners of the Company		(105,114)	35,272
Non-controlling interests		<u>(41,144)</u>	<u>11,473</u>
		<u>(146,258)</u>	<u>46,745</u>

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (Re-presented) (<i>Note 8</i>)
Total comprehensive (expense) income attributable to:			
Owners of the Company		(106,172)	36,470
Non-controlling interests		<u>(41,144)</u>	<u>11,473</u>
		<u>(147,316)</u>	<u>47,943</u>
(Loss) earnings per share	<i>10</i>		
From continuing and discontinued operations			
Basic and diluted (RMB cents)		<u>(10.24)</u>	<u>3.44</u>
From continuing operations			
Basic and diluted (RMB cents)		<u>(31.06)</u>	<u>0.75</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2015

	<i>Note</i>	2015 RMB'000	2014 <i>RMB'000</i>
Non-current Assets			
Property, plant and equipment	11	633,423	498,295
Deposit for acquisition of property, plant and equipment		5,223	19,573
Prepaid lease payments – non-current portion		136,315	106,899
Intangible assets	12	81,810	463,060
Goodwill	13	8,890	141,792
Interests in associates		23,092	24,667
Interest in a joint venture		5,433	4,220
Pledged bank deposits		4,731	8,727
Deferred tax assets		32,209	45,328
Available-for-sale financial assets		64,217	64,217
Embedded derivative financial asset		–	47
		995,343	1,376,825
Current Assets			
Prepaid lease payments – current portion		3,434	2,770
Inventories	15	635,131	749,609
Trade and bills receivables	16	1,602,558	1,846,394
Other receivables and prepayments		176,954	166,663
Amounts due from customers for contract work		–	51,545
Pledged bank deposits		73,576	110,167
Bank balances and cash		601,241	395,231
		3,092,894	3,322,379
Current Liabilities			
Trade payables	17	502,410	533,933
Other payables, deposits received and accruals		302,928	329,386
Dividend payable		6	6
Income tax payable		12,596	4,095
Bank borrowings – due within one year		283,551	346,757
Guaranteed notes – due within one year	18	424,817	–
		1,526,308	1,214,177
Net Current Assets		1,566,586	2,108,202
Total Assets less Current Liabilities		2,561,929	3,485,027
Capital and Reserves			
Share capital	20	9,548	9,548
Share premium and reserves	21	1,763,462	1,866,458
Equity attributable to owners of the Company		1,773,010	1,876,006
Non-controlling interests		148,171	325,996
Total Equity		1,921,181	2,202,002

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current Liabilities			
Deferred tax liabilities		16,640	63,294
Bank borrowings – due after one year		160,000	–
Guaranteed notes – due after one year	<i>18</i>	191,358	1,160,804
Long term payable	<i>19</i>	100,000	–
Deferred income	<i>22</i>	<u>172,750</u>	<u>58,927</u>
		<u>640,748</u>	<u>1,283,025</u>
Total Equity and Non-current Liabilities		<u><u>2,561,929</u></u>	<u><u>3,485,027</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Other reserve	Statutory surplus reserves	Contribution from owners	Translation reserve	Share option reserve	Retained profits	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 21(i))	(Note 21(ii))	(Note 21(iii))				(Note 21(iv))			
At 1 January 2014	9,548	648,367	34,666	111,954	619	9,874	-	1,007,616	1,822,644	2,163,974
Profit for the year	-	-	-	-	-	-	-	35,272	35,272	46,745
Exchange difference arising on translation of foreign operations	-	-	-	-	-	1,524	-	-	1,524	1,524
Share of translation reserve of a joint venture	-	-	-	-	-	(326)	-	-	(326)	(326)
Total comprehensive income for the year	-	-	-	-	-	1,198	-	35,272	36,470	47,943
Appropriations to reserves	-	-	-	14,176	-	-	-	(14,176)	-	-
Dividend declared to non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	(11,650)	(11,650)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	1,735	-	1,735	1,735
Reclassifications (Note)	-	-	-	39,334	-	-	-	(24,177)	15,157	-
At 31 December 2014	9,548	648,367	34,666	165,464	619	11,072	1,735	1,004,535	1,876,006	2,202,002
(Loss) profit for the year	-	-	-	-	-	-	-	(105,114)	(105,114)	(146,258)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(797)	-	-	(797)	(797)
Share of translation reserve of a joint venture	-	-	-	-	-	(261)	-	-	(261)	(261)
Total comprehensive expense income for the year	-	-	-	-	-	(1,058)	-	(105,114)	(106,172)	(147,316)
Appropriations to reserves	-	-	-	60,475	-	-	-	(60,475)	-	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	3,176	-	3,176	3,176
Derecognized on disposal of a subsidiary (Note 8)	-	-	-	(43,440)	-	-	-	43,440	-	(136,681)
At 31 December 2015	9,548	648,367	34,666	182,499	619	10,014	4,911	882,386	1,773,010	1,921,181

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

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

<i>Note</i>	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>

INVESTING ACTIVITIES

Interest received	3,128	3,569
Dividend income received	–	777
Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment	(136,823)	(80,678)
Increase in prepaid lease payment	(33,347)	–
Development costs paid	(22,753)	(36,111)
Proceeds on disposal of property, plant and equipment	185	3,202
Net cash inflow on disposal of a subsidiary	8 765,373	–
Transaction cost paid for disposal of a subsidiary	(6,755)	–
Income tax paid for disposal of a subsidiary	(68,012)	–
Receipts of government grants	69,946	–
Relocation compensation received	30,800	–
Placement of pledged bank deposits	(86,305)	(40,803)
Withdrawal of pledged bank deposits	97,747	62,796
Net cash generated from (used in) investing activities	613,184	(87,248)

FINANCING ACTIVITIES

Bank borrowings raised	667,009	463,564
Repayment of bank borrowings	(570,215)	(502,894)
Long term payable raised	100,000	–
Repayment of guaranteed notes including early redemption premium	(800,403)	–
Interest paid	93,621	(121,008)
Proceeds from issuance of new guaranteed notes	193,074	–
Transaction costs incurred for issue of new guaranteed notes	(3,475)	–
Dividends paid to non-controlling shareholders	–	(16,310)
Net cash used in financing activities	(507,631)	(176,648)

Net increase (decrease) in cash and cash equivalents	203,843	(58,840)
Cash and cash equivalents at beginning of the year	395,231	457,103
Effect of foreign exchange rate changes	2,167	(3,032)

Cash and cash equivalents at end of the year	601,241	395,231
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Analysis of the balances of cash and cash equivalents:
represented by

Bank balances and cash	601,241	395,231
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. REVENUE

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

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

2. SEGMENT INFORMATION

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

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

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

Segment revenues and results

Owing to the disposal of the discounted operations set out in Note 8, the segment information for 2014 and 2015 has only included the Group's revenue and results from continuing operations but there are no change in the reportable and operating segments. The details of the segment revenue and results are as follows:

2015

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

2014

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

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

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

Segment assets and liabilities

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

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

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

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

The decrease in the railway segment assets and liabilities as at 31 December 2015 is mainly attributable to the disposal of a subsidiary as set out in Note 8.

Other segment information

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

	Petrochemical <i>RMB'000</i>	Railway <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Consolidated <i>RMB'000</i>
2015				
Interests in associates	23,092	–	–	23,092
Interests in a joint venture	–	5,433	–	5,433
Depreciation and amortization	49,287	12,901	2	62,190
Release of prepaid lease payment	2,383	397	487	3,267
(Loss) gain on disposal of property, plant and equipment	(6)	186	–	180
Impairment losses on trade receivables	110,823	13,636	–	124,459
Impairment losses on intangible assets	25,774	93,360	–	119,134
Impairment losses on goodwill	–	60,125	–	60,125
Share of loss of associates	1,575	–	–	1,575
Share of profit of a joint venture	–	1,474	–	1,474
Interest income	2,660	311	4	2,975
Interest expense	<u>8,904</u>	<u>13,005</u>	<u>72,107</u>	<u>94,016</u>

2014

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

Geographical information

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

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

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

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

Revenue by products and services

The Group's revenue analyzed by goods or services are set out in Note 1.

Information about major customers

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

	2015 RMB'000	2014 RMB'000
Petrochemical – Customer A	236,710	Note
Petrochemical – Customer B	<u>166,326</u>	<u>197,102</u>

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

3. OTHER INCOME

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

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 22, government grants mainly include the government subsidies received by the Company's subsidiaries from relevant government bodies in connection with expenses on technology development. All government grants were recognized at the time the grants are receivable and the corresponding expenses has already been incurred and recognized in the profit or loss.

4. OTHER GAINS AND LOSSES

	2015 RMB'000	2014 RMB'000
Continuing operations		
Net foreign exchange loss (<i>Note</i>)	(30,385)	(12,513)
(Loss) gain on disposal of property, plant and equipment	(180)	226
Loss on embedded derivative financial asset (<i>Note 18</i>)	(47)	(3,907)
Early redemption premium of guaranteed notes (<i>Note 18</i>)	(14,767)	–
Allowance for bad and doubtful debts	(124,459)	(30,846)
Impairment losses recognized on intangible assets	(119,134)	–
Impairment losses recognized on goodwill	(60,125)	–
	<u>(349,097)</u>	<u>(47,040)</u>

Note: The amount includes exchange loss relating to the translation of guaranteed notes from United States Dollar ("US\$") to RMB amounting to RMB39,822,000 during the current year (2014: RMB4,212,000) (*Note 18*).

5. FINANCE COSTS

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

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

No interest was capitalized during the prior year.

6. INCOME TAX EXPENSES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. DISCONTINUED OPERATIONS

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

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

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

	Period from 1 January 2015 to 26 May 2015 RMB'000	2014 RMB'000
Cash flows from discontinued operations		
Net cash inflows from operating activities	1,872	21,185
Net cash outflows from investing activities	(20,412)	(18,513)
Net cash outflows from financing activities	<u>(47,412)</u>	<u>(51,707)</u>
Net cash outflows	<u>(65,952)</u>	<u>(49,035)</u>

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

	RMB'000
Non-current Assets	
Property, plant and equipment	8,681
Intangible assets	260,738
Deferred tax assets	<u>24,961</u>
	<u>294,380</u>
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	<u>46,277</u>
	<u>448,708</u>
Current Liabilities	
Trade and bills payables	78,619
Other payables, deposits received and accruals	42,817
Income tax payable	<u>533</u>
	<u>121,969</u>
Non-current Liabilities	
Deferred tax liabilities	<u>34,504</u>
Net assets disposed of	<u><u>586,615</u></u>

Gain on disposal of a subsidiary	<i>RMB'000</i>
Consideration received	811,650
Net assets disposed of	(586,615)
Non-controlling interests	136,681
Goodwill derecognized on the disposal	(72,777)
Transaction cost of the disposal	<u>(18,992)</u>
Gain on the disposal before taxation	<u>269,947</u>
Net cash inflow on disposal of a subsidiary	<i>RMB'000</i>
Consideration received	811,650
Less: cash and cash equivalent balances disposed of	<u>(46,277)</u>
	<u>765,373</u>

9. DIVIDENDS

No interim dividends have been declared in the current year.

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

10. (LOSS) EARNINGS PER SHARE

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

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

(Loss) earnings

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

Weighted average number of shares

	2015 <i>'000 shares</i>	2014 <i>'000 shares</i>
Number of ordinary shares for the purpose of basic earnings per share	<u>1,026,264</u>	<u>1,026,264</u>

The calculation of diluted earnings per share for both the current and prior years did not take into account the share options of the Company issued on 24 July 2014 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.

11. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

12. INTANGIBLE ASSETS

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

Note: Development costs capitalized are internally generated.

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

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

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

As a result, the trademarks are considered by the Directors as having an indefinite useful life. They will be tested for impairment annually and whenever there are indications that they may be impaired. Particulars of the impairment testing are disclosed in Note 14.

Impairment losses recognized in the year

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

In performing the annual impairment review for goodwill and intangible assets, impairment losses amounting to RMB27,221,000 and RMB66,139,000 for development costs and licenses, respectively, were recognized to the profit or loss. Details of these impairment losses are set out in Note 14.

The total impairment losses on intangible assets amounting to RMB119,134,000 have been included in "other gains and losses" (Note 4).

13. GOODWILL

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

14. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS

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

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

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	
	2015	2014	2015	2014
			<i>(Note)</i>	
Unit A	15.0%	16.2%	5%	8%
Unit B	14.4%	15.2%	8%	15%
Unit C	11.8%	12.8%	15%	25%
Unit D	14.7%	16.1%	5%	5%
Unit E	<u>13.9%</u>	<u>15.4%</u>	<u>10%</u>	<u>10%</u>

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

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

Unit A

This unit comprises Beijing Jiaoda Microunion and Beijing Transportation. Beijing Jiaoda Microunion is a licensed and major supplier of urban railway signalling system products in the PRC, while Beijing Transportation operates in the non-public industrial railway markets. The two companies shared similar technology backgrounds and pool of talents which brought operating synergy to the Group. During the year, the Group completed the very substantial disposal of Beijing Jiaoda Microunion (Note 8).

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

Unit B

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

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

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

The details of the impairment losses recognized for the non-current assets at 31 December 2015 in "other gains and losses" as set out in Note 4 are as follows:

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

15. INVENTORIES

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

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

16. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

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

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

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

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

Movements in the allowance for doubtful debts

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

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.

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

As at 31 December 2015

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

As at 31 December 2014

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

17. TRADE PAYABLES

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

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

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

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
US\$	45,834	28,149
JPY	6,801	15,447
EUR	5,271	6,330
SG\$	184	757
GBP	-	1,679
THB	<u>-</u>	<u>27</u>
	<u><u>58,090</u></u>	<u><u>52,389</u></u>

18. GUARANTEED NOTES

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

US\$200,000,000 guaranteed notes due 2016 (the “2016 Guaranteed Notes”)

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

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

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

The fair value of the early redemption right at 31 December 2015 is estimated to be no value (2014: RMB47,000). The early redemption right has been recognized as embedded derivative financial asset in the consolidated statement of financial position, and a loss of RMB47,000 was recognized during the current year (2014: RMB3,907,000) (Note 4).

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

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

The total redemption premium of RMB14,767,000 was expensed and included in “other gains and losses” in the consolidated statement of profit or loss and other comprehensive income (Note 4).

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

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

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

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

US\$30,000,000 guaranteed notes due 2018 (the “2018 Guaranteed Notes”)

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

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

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

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

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

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

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

19. LONG TERM PAYABLE

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

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

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

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

20. SHARE CAPITAL

	2015		2014	
	Number of shares '000 shares	Amount HK'000	Number of shares '000 shares	Amount HK'000
Authorized:				
Ordinary shares of HK\$0.01 each	<u>3,000,000</u>	<u>30,000</u>	<u>3,000,000</u>	<u>30,000</u>
Issued and fully paid:				
At 1 January and 31 December	<u>1,026,264</u>	<u>10,262</u>	<u>1,026,264</u>	<u>10,262</u>
			2015 RMB'000	2014 RMB'000
Shown in the consolidated statement of financial position			<u>9,548</u>	<u>9,548</u>

21. RESERVES

(i) Share premium

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

(ii) Other reserves

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

(iii) Statutory surplus reserves

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

(iv) Share option reserve

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

22. DEFERRED INCOME

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

Notes:

- (i) Deferred income arising from government grant represents the government subsidies obtained in relation to (a) the purchase of the land use right and the infrastructure construction, which was included in the consolidated statements of financial position as deferred income and credited to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected useful life of the relevant assets; (b) the expenses on technology development when the grants are received and the corresponding research activities have not been accomplished, which was included in deferred income and recognized in profit or loss when the research and development expenses has already been fully incurred.
- (ii) On 21 May 2015, the Company's subsidiary, Wuzhong entered into an agreement with the municipal government of Wuzhong City of Ningxia Hui Autonomous Region in the PRC as at a total compensation consideration of approximately RMB200,279,000. The amount of compensation attributable to losses of the land use right, property, plant and unmovable equipment, related expenses and losses from production suspension incurred during the relocation. During the current year, the relocation activities have not yet commenced. Accordingly, the compensation income of RMB50,000,000 received in advance is recorded as deferred income and will be recognized as other income based on the relocation progress subsequently.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION AND BUSINESS REVIEW

In 2015, the Group maintained a leading position in its three core businesses among the two major industries of petrochemicals and railway in China. The Group is the largest integrated solution provider of safety and critical control systems in the petrochemical and coal chemical industries; the largest domestic manufacturer of control valves; one of the qualified suppliers of traction and auxiliary power supply systems in the railway industry in China.

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

Petrochemical Industry

In 2015, the Group's safety and critical control related business experienced a correction in scale. Yet it still maintained its leading position in the market against a backdrop of weak economic growth in China and the deep corrections in oil prices that had dampened demand from petrochemical and coal chemical industries. As at 31 December 2015, the Group successfully completed and delivered approximately 421 sets of systems, bringing the cumulative delivered system count to approximately 3,722 sets. The Group continued to secure large-scale projects in 2015 from renowned petrochemical and coal-chemical related companies, including Sinopec, PetroChina, China Coal Energy and Shenhua Group, etc. In addition, as a qualified vender for GE Oil & Gas, MAN Turbo, Hitachi, Kobelco, Air Product, Air Liquide, Siemens, Atlas Copco, Mitsubishi, Dresser Rand, Elliott-Ebara and YORK, the Group continued to win new contracts in 2015 from these corporations. Moreover, the Group has upgraded its self-developed proprietary products namely, iMEC, iSOM and OTS systems, providing energy-saving and more complete solutions for turbine and compressor control systems.

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

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

Railway Industry

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

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

FINANCIAL REVIEW

CONTINUING OPERATIONS

Revenue

For the year ended 31 December 2015, revenue of the Group decreased by 14.5% to RMB1,641 million (2014: RMB1,918.5 million).

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

Turnover analysis by operating segment

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

Turnover analysis by types of goods supplied and services rendered

	For the year ended 31 December				
	2015		2014		Change
	(RMB million)	Proportion (%)	(RMB million)	Proportion (%)	(%)
System sales and					
Engineering design services					
– Petrochemical					
– safety systems	548.1	33.4	769.4	40.1	-28.8
– control valves	700.6	42.7	671.7	35.0	+4.3
– Railway					
– Traction systems					
and others	183.1	11.1	212.3	11.1	-13.8
Sub-total	1,431.8	87.2	1,653.4	86.2	-26.0
Provision of engineering and					
maintenance services	183.5	11.2	185.2	9.7	-0.9
Distribution of equipment	25.7	1.6	79.9	4.1	-67.8
Total	1,641.0	100.0	1,918.5	100.0	-26.0

Note: Control valve system sales included related service income.

SYSTEM SALES AND RELATED SERVICES TO PETROCHEMICAL INDUSTRIES

Safety systems and engineering design services

For the year ended 31 December 2015, revenue generated from system sales and engineering design services in relation to the petrochemical industries decreased by 28.8% to RMB548.1 million (2014: RMB769.4 million). The decrease was mainly due to slower overall demand stemming from slowdown in the overall economy in China and declines in crude oil price.

Control valve

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

SYSTEM SALES TO RAILWAY INDUSTRIES

Traction system and others

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

Provision of engineering and maintenance services

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

Distribution of equipment

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

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

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

Gross profit

Gross profit for the year ended 31 December 2015 amounted to RMB497.8 million (2014: RMB620.9 million), representing a decrease of RMB123.2 million or 19.8% over the previous year.

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

Gross profit analysis by types of goods supplied and services rendered

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

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

Gross profit margin of system sales and engineering design services

The gross profit margin of safety and critical control system and engineering design services decreased by 2.3% points to 27.8% (2014: 30.1%) mainly due to a lower output level and hence weaker economy of scales.

Gross profit margin of control valve

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

GROSS PROFIT MARGIN OF SYSTEM SALES IN RELATION TO RAILWAY INDUSTRIES

Gross profit margin of traction system and others

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

Gross profit margin of the provision of engineering and maintenance services

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

Gross profit margin of distribution of equipment

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

Other Income

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

Other Losses

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

Selling and distribution expenses

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

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

Administrative expenses

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

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

Research and development expenses

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

Finance costs

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

Income tax expenses

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

(Loss) profit for the year

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

DISCONTINUED OPERATIONS

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

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

Jiaoda Microunion as at the date of disposal, the gain on the disposal amounted to approximately RMB201.9 million after deduction of the direct related expenses and the effect on income tax charged to the gain on the disposal.

(Loss) profit for the period (from continuing and discontinued operations)

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

(Loss) earnings per share

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

Dividend

The Board has resolved not to recommend distribution of a final dividend (2014: Nil) in respect of the year.

Liquidity, financial resources and capital structure

The Group's liquidity position remains strong.

Net cash generated from the Group's operating activities for the year ended 31 December 2015 amounted to RMB98.3 million (2014: RMB205.1 million). This was mainly attributable to a higher level of other receivables as well as a lower level of increase in trade payables.

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

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

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

Gearing position

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

Significant investments, mergers and acquisitions

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

Contingent liabilities

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

FUTURE OUTLOOK

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

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

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

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

GENERAL

PROPOSED DIVIDEND

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

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

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in full compliance with all of the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2015.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Group has adopted procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code").

Relevant employees who are likely to be in possession of unpublished price-sensitive information (the "Inside Information") of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. Specific confirmation of compliance has been obtained from each Director and relevant employee to confirm compliance with the Model Code for the year ended 31 December 2015. No incident of non-compliance by Directors and relevant employees was noted by the Company for the year ended 31 December 2015. The Group is aware of its obligations under the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong) and the Listing Rules, including the overriding principle that information which is expected to be price-sensitive should be

announced promptly and to prevent selective or inadvertent disclosure of Inside Information. Therefore, the Company conducts the handling and dissemination of such Inside Information in accordance with the “Guidelines on Disclosure of Insider Information” issued by the Securities and Futures Commission in June 2012 and adopted the Policy on Inside Information on 1 January 2013.

AUDIT COMMITTEE

The consolidated financial statements of the Group for the year ended 31 December 2015 and the related disclosures have been reviewed and approved by the audit committee.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of the Company’s issued shares in the market as at the date of this announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Friday, 27 May 2016. A notice of the annual general meeting will be issued and disseminated to shareholders in due course.

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANY

The annual results announcement is required to be published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.com.hk and the Company’s corporate website www.cag.com.hk.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to our customers, business partners and shareholders for their continued support for the Group. I would also like to thank every member of our management and staff members for their contributions to the Group during the year.

By Order of the Board
China Automation Group Limited
Xuan Rui-guo
Chairman

Hong Kong, 24 March, 2016

As at the date of this announcement, the Board comprises Mr. XUAN Rui-guo, Mr. HUANG Zhi-yong and Mr. KUANG Jian-ping as executive Directors of the Company; and Mr. WANG Tai-wen, SUI Yong-bin and Mr. NG Wing-fai as independent non-executive Directors.