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 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	**2016**	2015
		RMB'000	*RMB'000*
Continuing operations			
Revenue	*1*	**1,195,259**	1,640,983
Cost of sales		**(1,058,707)**	(1,143,164)
Gross profit		**136,552**	497,819
Other income	*3*	**74,828**	38,307
Other gains and losses	*4*	**(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	*5*	**(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)	*6*	**7,945**	(12,203)
Loss for the year from continuing operations		**(414,897)**	(363,519)
Discontinued operations			
Profit for the year from discontinued operations		**–**	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)

	Note	2016	2015
		RMB'000	*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	*8*		
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

	Note	**2016**	2015
		RMB'000	*RMB'000*
Non-current Assets			
Property, plant and equipment		**883,918**	633,423
Deposit for acquisition of property, plant and equipment		**40,303**	5,223
Prepaid lease payments – non-current portion		**271,119**	136,315
Intangible assets		**69,273**	81,810
Goodwill		**8,890**	8,890
Interests in associates		**20,585**	23,092
Interest in a joint venture		**–**	5,433
Pledged bank deposits		**405**	4,731
Deferred tax assets		**66,486**	32,209
Available-for-sale ("AFS") financial assets		**41,170**	64,217
		1,402,149	995,343
Current Assets			
Prepaid lease payments – current portion		**6,314**	3,434
Inventories		**481,724**	635,131
Trade and bills receivables	*9*	**1,420,321**	1,602,558
Other receivables and prepayments		**145,330**	176,954
Pledged bank deposits		**61,934**	73,576
Bank balances and cash		**168,538**	601,241
		2,284,161	3,092,894
Assets classified as held for sale		**50,487**	–
		2,334,648	3,092,894
Current Liabilities			
Trade payables	*10*	**485,228**	502,410
Other payables, deposits received and accruals		**342,528**	302,928
Dividend payable		**6**	6
Income tax payable		**23,159**	12,596
Bank borrowings – due within one year		**333,803**	283,551
Guaranteed notes – due within one year		**–**	424,817
		1,184,724	1,526,308
Liabilities directly associated with assets classified as held for sale		**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

	Note	2016 RMB'000	2015 RMB'000
Capital and Reserves			
Share capital		**9,548**	9,548
Share premium and reserves		**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		**16,640**	16,640
Bank borrowings – due after one year		**200,000**	160,000
Guaranteed notes – due after one year		**205,567**	191,358
Corporate bonds	*11*	**195,679**	–
Other non-current liabilities		**382,339**	272,750
		1,000,225	640,748
Total Equity and Non-current Liabilities		**2,512,896**	2,561,929

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company										
	Share capital	Share premium	Other reserve	Statutory surplus reserves	Contribution from owners	Translation reserve	Share option reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	–	–	–	–	–	(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	–	–	–	–	–	–	3,176	–	3,176	–	3,176
Derecognised on disposal of a subsidiary	–	–	–	(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	–	–	–	–	–	527	–	–	527	–	527
Reclassification adjustment for the cumulative share of translation reserve upon disposal of a joint venture	–	–	–	–	–	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	–	–	–	–	–	–	2,094	–	2,094	–	2,094
Effect of share option *(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 HK$1,026,260 (equivalent to approximately RMB884,000) made by the controlling shareholder, which is deemed as a contribution from owners.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	RMB'000	*RMB'000*
Net cash generated from operating activities	**31,555**	98,290
Net cash (used in) generated from investing activities	**(249,205)**	613,184
Net cash used in financing activities	**(208,007)**	(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	**(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. REVENUE

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

	2016 *RMB'000*	2015 *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

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

2016

	Petrochemical	**Railway**	**Consolidated**
	RMB'000	*RMB'000*	*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	Railway	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
Revenue	1,450,188	190,795	1,640,983
Segment loss before tax	(52,560)	(163,015)	(215,575)
Income tax (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. 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.

3. OTHER INCOME

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

4. OTHER GAINS AND LOSSES

	2016	2015
	RMB'000	*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	**(5,342)**	(14,767)
Allowance on bad and doubtful debts	**(111,626)**	(124,459)
Loss on disposal of a joint venture	**(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).

5. FINANCE COSTS

	2016	2015
	RMB'000	*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 11)*	**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.

6. INCOME TAX EXPENSES

	2016	2015
	RMB'000	*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	**3,460**	–
	26,332	37,223
Deferred tax credit	**(34,277)**	(25,020)
	(7,945)	12,203

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.

7. 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).

8. (LOSS) EARNINGS PER SHARE

	2016	2015
	RMB Cents	*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	2015
	RMB'000	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 '000 shares	2015 '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 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.

9. 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

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 RMB'000	2015 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

10. TRADE PAYABLES

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

	2016	2015
	RMB'000	*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.

11. CORPORATE BONDS

On 19 September 2016, the Company's subsidiary, Beijing Consen Automation Control Company Limited ("Beijing Consen") obtained approval by Beijing Equity Trading Center 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 December 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. 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
	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**

MANAGEMENT DISSCUSSION AND ANALYSIS

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 has been named "Smart Production Pilot Showcase Enterprise" by the Ministry of Industry and Information Technology, indicating that the Group's information technology application has 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 localized 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 as a general contractor is expected to fully deliver around March 2017. With the proven track record, the Group won the contract as a general contractor 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	**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 revenue of this business segment.

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.

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 (i) lower level of output and loss of economies of scales; and (ii) the delivery of low-margin traction systems for subway projects.

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 localization enacted by the Chinese Government; (ii) 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 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 Note").

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

As a result of the foregoing, the Group 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 period (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 (from both continuing and discontinued operations) for the year ended 31 December 2016 was RMB38.08 cents (2015: RMB10.24 cents).

Loss per share (from continuing operations) for the year ended 31 December 2016 was RMB38.08 cents (2015: RMB31.06 cents).

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 RMB31.6 million (2015: RMB98.3 million). The Group was still able to generate 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 RMB299.6 million to RMB208.0 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 optimize 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 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 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 maximize 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.

GENERAL

PROPOSED DIVIDEND

The Board did not recommend the distribution of final dividend (2015: Nil) for the year ended 31 December 2016.

EMPLOYEES AND REMUNERATION POLICIES

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, 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 2016, 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 complied with all the applicable code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 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 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.

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 to confirm compliance with the Model Code for the year ended 31 December 2016. No incident of non-compliance by Directors was noted by the Company for the year ended 31 December 2016. 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 2016 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 Monday, 29 May 2017. 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 COMAPNY

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, 23 March, 2017

As at the date of this announcement, the Board comprises Mr. Xuan Rui Guo, Mr. Wang Chuensheng as executive Directors of the Company; and Mr. Wang Tai Wen, Mr. Zhang Xin Zhi and Mr. Ng Wing Fai as independent non-executive Directors.