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CHINA HIGH PRECISION AUTOMATION GROUP LIMITED

中國高精密自動化集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 591)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2017

HIGHLIGHTS

1. Turnover decreased by 23.8%;
2. Loss from operations decreased by 5.3%;
3. Net loss attributable to equity shareholders of the Company decreased by 4.8%;
4. Both basic and diluted loss per share were RMB8.64 cents.

ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

The board (the “Board”) of directors (the “Directors”) of China High Precision Automation Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together referred to as the “Group”) for the year ended 30 June 2017 (the “Year”), with the comparative figures for the preceding financial year ended 30 June 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 30 June 2017

(Expressed in Renminbi Yuan)

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Turnover	3	121,211	158,988
Cost of sales		(166,422)	(193,028)
Gross loss		(45,211)	(34,040)
Other income	5	10,521	9,548
Other loss	5	(1,876)	(6,855)
Distribution costs		(2,670)	(4,042)
Administrative expenses		(49,414)	(50,977)
Fair value change in investment properties		(2,332)	(4,353)
Reversal of impairment/(impairment) for trade receivables	10(b)	205	(5)
Impairment of inventories		—	(5,156)
Loss from operations		(90,777)	(95,880)
Finance costs		—	—
Loss before taxation	6	(90,777)	(95,880)
Income tax credit	7(a)	1,091	1,700
Loss for the year attributable to equity shareholders of the Company		(89,686)	(94,180)
Loss per share (<i>RMB cents</i>)	9		
— basic		(8.64)	(9.08)
— diluted		(8.64)	(9.08)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

(Expressed in Renminbi Yuan)

	2017	2016
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the year attributable to equity shareholders of the Company	(89,686)	(94,180)
Other comprehensive income for the year		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (excluding Hong Kong)	<u>1,327</u>	<u>6,971</u>
Total comprehensive expenses for the year attributable to equity shareholders of the Company	<u>(88,359)</u>	<u>(87,209)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2017**(Expressed in Renminbi Yuan)*

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		474,299	521,406
Investment properties		47,393	51,801
Interests in leasehold land held for own use under operating leases		8,730	8,957
Deposits for the purchase of property, plant and equipment		311	184
Deferred tax assets		3,278	3,340
		534,011	585,688
Current assets			
Inventories		40,052	41,496
Trade and other receivables	10	63,233	78,333
Cash and cash equivalents		1,446,994	1,472,102
		1,550,279	1,591,931
Current liabilities			
Trade and other payables	11	63,339	66,916
Provision for warranties		572	812
		63,911	67,728
Net current assets		1,486,368	1,524,203
Total assets less current liabilities		2,020,379	2,109,891
Non-current liabilities			
Deferred tax liabilities		19,216	20,369
		19,216	20,369
NET ASSETS		2,001,163	2,089,522
CAPITAL AND RESERVES			
Share capital	12	91,360	91,360
Reserves		1,909,803	1,998,162
TOTAL EQUITY		2,001,163	2,089,522

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

(Expressed in Renminbi Yuan)

Attributable to equity shareholders of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Surplus reserve <i>RMB'000</i>	Share- based payment reserve <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Revaluation reserve <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 July 2015	91,360	941,077	181,790	88,260	2,982	2,986	(28,029)	896,305	2,176,731
Changes in equity for the year ended 30 June 2016:									
Loss for the year	—	—	—	—	—	—	—	(94,180)	(94,180)
Other comprehensive income	—	—	—	—	—	—	6,971	—	6,971
Transfer of reserves upon lapse of share option	—	—	—	(88,260)	—	—	—	88,260	—
Total comprehensive income/(expenses)	—	—	—	(88,260)	—	—	6,971	(5,920)	(87,209)
Balance at 30 June 2016	<u>91,360</u>	<u>941,077</u>	<u>181,790</u>	<u>—</u>	<u>2,982</u>	<u>2,986</u>	<u>(21,058)</u>	<u>890,385</u>	<u>2,089,522</u>

Attributable to equity shareholders of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Surplus reserve <i>RMB'000</i>	Share- based payment reserve <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Revaluation reserve <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 July 2016	91,360	941,077	181,790	—	2,982	2,986	(21,058)	890,385	2,089,522
Changes in equity for the year ended 30 June 2017:									
Loss for the year	—	—	—	—	—	—	—	(89,686)	(89,686)
Other comprehensive income	—	—	—	—	—	—	1,327	—	1,327
Total comprehensive income/(expenses)	—	—	—	—	—	—	1,327	(89,686)	(88,359)
Balance at 30 June 2017	<u>91,360</u>	<u>941,077</u>	<u>181,790</u>	<u>—</u>	<u>2,982</u>	<u>2,986</u>	<u>(19,731)</u>	<u>800,699</u>	<u>2,001,163</u>

NOTES:

1 BASIS OF PREPARATION

The consolidated results set out in this announcement does not constitute the Group's financial statements for the year ended 30 June 2017 but is extracted from those financial statements.

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The measurement basis used in the preparation of the financial statements is the historical cost basis except for investment properties that are measured at fair values at the end of each reporting period.

2 APPLICATION OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRSs	Annual Improvements 2012–2014 cycle

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

3 TURNOVER

The principal activities of the Group are the manufacture and sales of high precision industrial automation instrument and technology products as well as horological instruments.

Turnover represents the sales value of goods sold less returns, discounts, value added taxes and other sales taxes. The amount of each significant category of revenue recognised during the year is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Sales of automation instrument and technology products	104,421	109,896
Sales of horological instruments	16,790	49,092
	<u>121,211</u>	<u>158,988</u>

4 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Automation instrument and technology products: the manufacture and trading of intelligent display instruments, flow accumulate instruments, pressure transmitters and logging control instruments

Horological instruments: the manufacture and trading of multi-functional all-plastic quartz watch movements

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management, being the chief operating decision maker, monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade and other payables, provision for warranties and current tax payable attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment loss is "adjusted loss from operations". To arrive at reportable segment loss, the Group's loss from operations is adjusted for items not specifically attributed to individual segments, such as head office or corporate administrative expenses. In addition to receiving segment information concerning adjusted loss from operations, management is provided with segment information concerning revenue, additions to non-current segment assets, depreciation and amortisation and allowance for doubtful debt.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 30 June 2017 and 2016 is set out below.

	Automation instrument and technology products		Horological instruments		Total	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Reportable segment revenue	<u>104,421</u>	<u>109,896</u>	<u>16,790</u>	<u>49,092</u>	<u>121,211</u>	<u>158,988</u>
Reportable segment loss (adjusted loss from operations)	<u>(57,751)</u>	<u>(45,934)</u>	<u>(29,886)</u>	<u>(38,642)</u>	<u>(87,637)</u>	<u>(84,576)</u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2016: Nil).

	Automation instrument and technology products		Horological instruments		Total	
	At	At	At	At	At	At
	30 June 2017 RMB'000	30 June 2016 RMB'000	30 June 2017 RMB'000	30 June 2016 RMB'000	30 June 2017 RMB'000	30 June 2016 RMB'000
Reportable segment assets	<u>436,246</u>	<u>472,929</u>	<u>144,362</u>	<u>172,271</u>	<u>580,608</u>	<u>645,200</u>
Reportable segment liabilities	<u>14,242</u>	<u>10,631</u>	<u>5,722</u>	<u>9,137</u>	<u>19,964</u>	<u>19,768</u>

(b) **Reconciliations of reportable segment revenues, profit or loss, assets and liabilities**

	2017 RMB'000	2016 RMB'000
Revenue		
Reportable segment revenue	<u>121,211</u>	<u>158,988</u>
Turnover	<u>121,211</u>	<u>158,988</u>
	2017 RMB'000	2016 RMB'000
Profit or loss		
Reportable segment loss	(87,637)	(84,576)
Bank interest income	4,420	4,709
Unallocated head office and corporate income	5,861	4,251
Unallocated head office and corporate expenses	<u>(13,421)</u>	<u>(20,264)</u>
Loss before taxation	(90,777)	(95,880)
Income tax credit	<u>1,091</u>	<u>1,700</u>
Loss for the year	<u>89,686</u>	<u>94,180</u>
	2017 RMB'000	2016 RMB'000
Assets		
Reportable segment assets	580,608	645,200
Unallocated head office and corporate assets	<u>1,503,682</u>	<u>1,532,419</u>
Total assets	<u>2,084,290</u>	<u>2,177,619</u>

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Liabilities		
Reportable segment liabilities	19,964	19,768
Unallocated head office and corporate liabilities	63,163	68,329
Total liabilities	<u>83,127</u>	<u>88,097</u>

(c) **Other segment information**

	Automation instrument and technology products		Horological instruments	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Depreciation and amortisation	41,988	34,694	6,673	15,587
Additions to non-current segment assets during the year	108	140	576	—
(Reversal of impairment)/impairment for trade receivables	—	5	(205)	—
	<u>—</u>	<u>5</u>	<u>(205)</u>	<u>—</u>

(d) **Geographical segments**

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment properties, interests in leasehold land held for own use under operating leases and deposits for the purchase of property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset.

	Revenues from external customers		Specified non-current assets	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Hong Kong and others	698	6,181	42	65
People's Republic of China ("PRC") (excluding Hong Kong)	120,513	152,807	530,691	582,283
	<u>121,211</u>	<u>158,988</u>	<u>530,733</u>	<u>582,348</u>

(e) **Information about major customers**

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	Reportable segments	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
		Customer A	Horological instruments

5 OTHER INCOME AND OTHER LOSS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Other income		
Bank interest income	4,420	4,709
Government grants (<i>Note</i>)	—	864
Rental income	2,893	2,609
Reversal of provision for warranties	240	588
Sundry income	2,968	778
	<u>10,521</u>	<u>9,548</u>
Other loss		
Loss on disposal of property, plant and equipment	(47)	(23)
Net foreign exchange losses	(1,829)	(6,832)
	<u>(1,876)</u>	<u>(6,855)</u>

Note:

Government grants represent incentives and subsidies granted to the PRC subsidiary by the local authorities. The government grants were unconditional.

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
(a) Staff costs		
Contributions to defined contribution retirement plans	1,860	2,003
Salaries, wages and other benefits	33,189	35,470
	<u>35,049</u>	<u>37,473</u>

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme (the “Defined Contribution Scheme”) organised by the PRC municipal government authority in the Fujian province whereby the Group is required to make a contribution at the rate of 18% of the eligible employees’ salaries to the Defined Contribution Scheme. The Group has accrued for the required pension fund contributions, which are remitted to the social security office in the Fujian province when the contributions become due. The social security office in the Fujian province is responsible for making the benefit payments to the retired employees covered under the Defined Contribution Scheme.

The Group maintains a mandatory provident fund scheme (the “MPF Scheme”) for all qualifying employees in Hong Kong. The Group’s and employee’s contributions to the MPF Scheme are based on 5% of the employees’ relevant income (up to a cap of monthly relevant income of HK\$30,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

The Group has no other material obligation for the payment of pension benefits associated with the two schemes beyond the annual contributions described above.

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
(b) Other items		
Depreciation	49,711	51,484
Amortisation	227	226
Research and development costs	10,889	12,242
Reversal of provision for warranties	(240)	(588)
Auditor's remuneration		
— Audit services	1,700	1,700
— Special audit for 2011 financial statements	600	600
(Reversal of impairment)/impairment for trade receivables (<i>note 10(b)</i>)	(205)	5
Operating lease charges in respect of properties	2,270	2,241
Loss on disposal of property, plant and equipment	47	23
Cost of inventories sold*	<u>166,422</u>	<u>193,028</u>

* Cost of inventories sold includes approximately RMB63,491,000 (2016: approximately RMB67,625,000) relating to staff costs, depreciation and amortisation expenses, amounts of which are also included in the respective total amounts disclosed separately above or in note 6(a) for each of these types of expenses.

7 INCOME TAX CREDIT

(a) Income tax credit in the consolidated statement of profit or loss represents:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Current tax		
Current year	—	—
Deferred tax credit		
Current year	<u>(1,091)</u>	<u>(1,700)</u>
	<u>(1,091)</u>	<u>(1,700)</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.
- (ii) No provision has been made for Hong Kong Profits Tax as the Group does not have assessable profits subject to Hong Kong Profits Tax during the year.
- (iii) No provision for taxation in the PRC has been made as the Group sustained a tax loss for the current year.
- (iv) Pursuant to the income tax rules and regulations of the PRC, a recognised Advanced and New Technology Enterprise (“ANTE”) that meets the conditions according to the *Notice on Issuance of the Administrative Measures governing the Recognition of Advanced and New Technology Enterprises* issued on 14 April 2008 is entitled to a reduced income tax rate of 15%. An indirect wholly-owned subsidiary of the Company, Fujian Wide Plus Precision Instrument Co., Ltd. (“Fujian Wide Plus”) was recognised as an ANTE as approved by the relevant authorities.

From 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. As Fujian Wide Plus is directly and wholly held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax under the double tax arrangement between Hong Kong and the PRC. Deferred tax liabilities have been recognised for undistributed retained profits of Fujian Wide Plus earned since 1 January 2008 till 30 June 2009 to the extent that the profits are likely to be distributed in the foreseeable future.

(b) Reconciliation between income tax credit and loss before taxation at applicable tax rate:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Loss before taxation	<u>(90,777)</u>	<u>(95,880)</u>
Notional tax on loss before taxation, calculated at the rates applicable in the tax jurisdiction concerned	(21,791)	(22,660)
Tax effect of non-taxable revenue	(1,068)	(1,691)
Tax effect of non-deductible expenses	2,735	4,919
Tax effect of temporary differences	(1,091)	(1,700)
Tax effect of estimated tax losses not recognised	<u>20,124</u>	<u>19,432</u>
Actual income tax credit	<u>(1,091)</u>	<u>(1,700)</u>

8 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
No dividend proposed after the end of the reporting period (2016: Nil)	<u>—</u>	<u>—</u>

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of approximately RMB89,686,000 (2016: approximately RMB94,180,000) and the number of 1,037,500,000 ordinary shares (2016: 1,037,500,000 ordinary shares) in issue during the year.

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company of approximately RMB89,686,000 (2016: approximately RMB94,180,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options assuming they were exercised during the year. For the year ended 30 June 2016, as disclosed in note 13, the Company did not have any exercisable share option outstanding as at 30 June 2016. There were no dilutive potential ordinary shares after all outstanding share options lapsed on 31 March 2016, therefore diluted loss per share are equal to basic loss per share. For the year ended 30 June 2017, diluted loss per share was the same as the basic loss per share as there was no dilutive potential ordinary shares.

	2017 '000	2016 '000
Weighted average number of ordinary shares (basic)	1,037,500	1,037,500
Effect of deemed issue of shares under the Company's share option scheme	—	—
	<u>1,037,500</u>	<u>1,037,500</u>

10 TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	62,059	77,372
Less: Allowance for doubtful debts (note 10(b))	(179)	(368)
	<u>61,880</u>	<u>77,004</u>
Other prepayments, deposits and receivables	<u>1,353</u>	<u>1,329</u>
	<u>63,233</u>	<u>78,333</u>

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates.

	2017 RMB'000	2016 RMB'000
0–60 days	25,851	30,249
61–120 days	18,650	27,682
121–180 days	17,379	19,073
	<u>61,880</u>	<u>77,004</u>

All of the trade and other receivables are expected to be recovered or recognised as an expense within one year. The Group generally grants credit periods of 120 days to 180 days from the date of billing to its customers.

(a) Ageing analysis

An ageing analysis of trade receivables (net of allowance for doubtful debts) at the end of the reporting periods is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Neither past due nor impaired (current)	61,880	77,004
Less than 1 month past due	—	—
1 to 3 months past due	—	—
Amount past due	—	—
	61,880	77,004

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
At 1 July 2016/2015	368	342
Impairment loss recognised	—	5
Reversal of impairment previously recognised	(205)	—
Exchange difference	16	21
At 30 June 2017/2016	179	368

The reversal of impairment previously recognised amounted to approximately RMB205,000 represented the amount recovered during the year. The individually impaired receivables related to customers and other third parties that were in financial difficulties and management assessed that only a portion of the receivables are expected to be recovered. Consequently, specific allowances for doubtful debts of approximately RMB179,000 (2016: approximately RMB368,000) were recognised. The Group does not hold any collateral over these balances.

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Age of impaired trade receivables overdue by		
0–60 days	—	—
61–120 days	—	—
Over 120 days	179	368
Total	179	368

11 TRADE AND OTHER PAYABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade payables	19,614	19,388
Other payables and accruals	43,725	47,528
	<u>63,339</u>	<u>66,916</u>

Included in trade and other payables are trade payables with the following ageing analysis at the end of the reporting periods. The credit periods granted by various suppliers are generally 120 days.

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Due within 1 month or on demand	11,532	16,056
Due after 1 month but within 3 months	7,411	2,795
Due after 3 months but within 6 months	111	83
Over 6 months	560	454
	<u>19,614</u>	<u>19,388</u>

All of the trade and other payables are expected to be settled within one year.

12 SHARE CAPITAL

There was no movements of the authorised and issued share capital of the Company during the years ended 30 June 2016 and 2017:

	Par value <i>HK\$</i>	Number of shares <i>'000</i>	Nominal value of ordinary shares	
			<i>HK\$'000</i>	<i>RMB'000</i>
Authorised:				
At 1 July 2015, 30 June 2016 and 30 June 2017	<u>0.1</u>	<u>10,000,000</u>	<u>1,000,000</u>	<u>880,500</u>
Issued and fully paid:				
At 1 July 2015, 30 June 2016 and 30 June 2017	<u>0.1</u>	<u>1,037,500</u>	<u>103,750</u>	<u>91,360</u>

Note:

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

13 EQUITY-SETTLED SHARE-BASED PAYMENTS

Pursuant to the shareholder's written resolution passed on 28 October 2009, the Company has adopted a share option scheme (the "Scheme") whereby the Directors of the Company are authorised, at their discretion, to invite any directors and employees of the Group, to take up options to subscribe for the shares of the Company. The Scheme will remain in force for a period of 10 years from the effective date of such scheme and will expire on 13 November 2019.

Under the Scheme, the Directors may at their discretion to grant options to (i) any employee of any member of the Group or any entity in which any member of the Group holds any equity interest (the "Invested Entity"); (ii) any executive and non-executive directors of any member of the Group or any Invested Entity; (iii) any supplier

and customer of any member of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; or (vi) any adviser or consultant of any member of the Group or any Invested Entity to subscribe for the shares of the Company.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the Scheme. The limit may be refreshed at any time provided that the new limit must not be in aggregate exceed 10% of the issued share capital of the Company as at the date of the shareholders' approval in general meeting. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme of the Company must not in aggregate exceed 30% of the shares in issue from time to time.

As at 30 June 2017, the number of shares available for issue under the Scheme was 103,750,000 (2016: 103,750,000), representing 10% of the issued shares of the Company.

The maximum number of shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules. A nominal consideration of HK\$1 is payable on acceptance of the grant of options.

Options may be exercised at any time from the date of grant of the option to the 10th anniversary of the date of grant as may be determined by the Directors. The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price per share as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the options; (ii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the options; or (iii) the nominal value of a share.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares. No share options were granted to the Company's Directors and employees during the years ended 30 June 2017 and 30 June 2016.

(a) The terms and conditions of the grants are as follows:

Date of grant		Number of options granted	Vesting conditions	Contractual life of options
Options granted to Directors:				
18 March 2011	Lot 1	4,920,000	0.5 month after the date of grant	5 years
18 March 2011	Lot 2	4,920,000	12.5 months after the date of grant	5 years
18 March 2011	Lot 3	6,560,000	24.5 months after the date of grant	5 years
Options granted to employees:				
18 March 2011	Lot 1	6,780,000	0.5 month after the date of grant	5 years
18 March 2011	Lot 2	6,780,000	12.5 months after the date of grant	5 years
18 March 2011	Lot 3	9,040,000	24.5 months after the date of grant	5 years
		39,000,000		

(b) All outstanding share options were lapsed in accordance with the terms of the Scheme on 31 March 2016. No share options were outstanding at 30 June 2017 and 2016.

(c) The number and weighted average exercise price of share options are as follows:

	Weighted average exercise price	Number of options '000
Outstanding at 1 July 2015	HK\$5.6	39,000
Less: Lapsed during the year ended 30 June 2016	HK\$5.6	<u>(39,000)</u>
Outstanding at 30 June 2016, 1 July 2016 and 30 June 2017		<u>—</u>

(d) **Fair value of share options and assumptions**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes-Merton Option Pricing Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes-Merton Option Pricing Model.

Fair value of share options and assumptions

	Lot 1	Lot 2	Lot 3
Fair value at measurement date (HK\$)	1.73789	1.88545	2.01633
Share price (HK\$)	5.5	5.5	5.6
Exercise price (HK\$)	5.6	5.6	5.6
Expected volatility	53.67%	53.67%	53.67%
Expected option life	2.5 years	3 years	3.5 years
Expected dividends	0.95%	0.95%	0.95%
Risk-free rate	0.77%	0.95%	1.14%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the grants of the share options.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND BUSINESS REVIEW

As at 30 June 2017, the principal activities of the Company were the research and development, manufacture and sales of automation instruments, and downstream customers mainly came from traditional industries. The measures for “cutting capacity and destocking” addressing supply-demand imbalance taken by the traditional industries, such as metallurgy, power generation, petroleum and petrochemicals, caused changes in demand and market pressure in the automation instrument industry. Meanwhile, as the lucrative high-end products and projects with high technological contents in the industrial automation sector were basically monopolised by foreign corporations, their systemic and cost advantages resulted in extremely fierce competition in the automation business. Foreign corporations regarded the China market as the most important growth driver and implemented localisation and full intervention while domestic companies grew steadily and rapidly thanks to their successful strategies and operation models. Competition in the market faced by the Company will become increasingly intensive.

In face of the challenges, the Company will actively capitalise on its overall advantage in the industry, strengthen its marketing efforts, and accelerate the construction of its marketing network. It will also actively explore the external market to reduce the reliance on its own industry, actively develop high value-added products with proprietary intellectual property rights, and deepen its research into the overall solution for the Internet of Things of the industry, in order to support industrial enhancement, improvement in product reliability, and innovation in the traditional manufacturing industry.

There were no important events affecting the Group that have occurred since the end of the Year.

SEGMENT INFORMATION

The Group has the following two business segments:

Automation instrument and technology products

During the Year, sales of high precision industrial automation instrument and technology products amounted to approximately RMB104,421,000 (2016: approximately RMB109,896,000), representing approximately 86.1% (2016: approximately 69.1%) of the Group’s total turnover. The Group continued to focus on production and expansion of high precision industrial automation instrument and technology products, and to manage its inventory levels and its distribution network. This segment recorded reportable segment loss of approximately RMB57,751,000, as compared to a reportable segment loss of approximately RMB45,934,000 in 2016.

Horological instruments

Sales of horological instruments were approximately RMB16,790,000 (2016: approximately RMB49,092,000), which accounts for approximately 13.9% (2016: approximately 30.9%) of the Group’s total turnover during the Year. This segment recorded reportable segment loss of approximately RMB29,886,000, as compared to a reportable segment loss of approximately RMB38,642,000 in 2016.

Manufacturing Facilities

The Group has large-scale production facilities located at Lot No. 15, Kuaian Road, Mawei Science and Technology Park, Fuzhou (福州馬尾科技園區快安大道15號地) and Long Men Village, Kuaian Technology Park, Fuzhou Economic and Technological Development Zone (福州經濟技術開發區快安科技園龍門村) in the PRC, covering a total site area of approximately 47,665 square meters.

The Group had no material expansion plan during the Year. In light of the instability of the global market, the Directors will proceed with the future developments cautiously.

PROSPECTS

The Company's industrial automation products are widely used in a number of industries and are more prone to fluctuations in economic cycles. Its downstream industries primarily include pillar industries of the national economy such as steel, power, coal, chemicals and petroleum. The situation of downstream industries, especially the newly constructed and technological transformation projects in the industrial sector, would have a larger impact on our industry. Since instrument application takes place at the latter stage of major construction project, there is a time lag between macro-economic changes and the manifestation of its impacts in our industry. In a period of economic downturn, the manufacturing of industrial automation products will face lower market demand and stiffer competition, but the rebound of the macro economy will bode well for the manufacturing of industrial automation products. During economic structure adjustment and industrial transformation and upgrade, different downstream sectors and different corporations in the same sector may present different trends of development. This will usher in opportunities for industrial automation product manufacturing corporations with strong market and technological responsiveness, particularly for enterprises with integrated business.

After years of technological innovation and continuous enhancement of production process and equipment, the Company possesses a number of core technologies of automation instrument products. In 2017, the Company will continue to take hold of technological innovation, boost its technological advancement to ride on the latest trend in the development of Internet of Things, and actively transform itself into a service-oriented manufacturer. In light of the robust demand for intelligent management and automated operation in smart cities and underground corridors reform, the Company will explore for customised overall solutions that integrate products, technologies and services based on "Internet Plus", and start with a breakthrough in "intelligent water supplies".

FINANCIAL REVIEW

Turnover

Turnover of the Group amounted to approximately RMB121,211,000 for the Year (2016: approximately RMB158,988,000), representing a decrease of about 23.8% as compared to that of last year. The decrease is mainly due to the adverse effect of the sluggish global economy which causes delay in commencement of large-scale projects in the PRC (particularly those in the petroleum and petrochemical industries), persistent decrease in demand of both industrial automation instrument and technology products and horological instruments.

Gross loss and loss from operations

During the Year, the Group's gross loss and loss from operations amounted to approximately RMB45,211,000 (2016: approximately RMB34,040,000) and approximately RMB90,777,000 (2016: approximately RMB95,880,000) respectively. The increase in gross loss is in line with the decrease in turnover. The loss from operations is also attributed to an impairment loss of approximately RMB2,332,000 (2016: approximately RMB4,353,000) in fair value change of investment properties.

The segment of automation instrument and technology products suffered a gross loss for the Year. It is mainly due to the decrease in turnover.

The segment of horological instruments also suffered a gross loss for the Year. It is also mainly due to the decrease in turnover. The Group adjusts the selling prices from time to time, if necessary, to maintain its market share in the intensely price competitive market.

Accordingly, during the Year, the Group suffered a loss from operations.

Net loss

The loss attributable to equity shareholders of the Company for the Year was approximately RMB89,686,000, as compared to that of approximately RMB94,180,000 in 2016. It was mainly attributable to the factors as mentioned above.

Loss per share

Both the basic and diluted loss per share for the Year were RMB8.64 cents (2016: both RMB9.08 cents).

Capital Structure, Liquidity and Financial Resources

During the Year, the Group's working capital requirement was principally financed by its internal resources.

As at 30 June 2017, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of approximately RMB1,446,994,000 (30 June 2016: approximately RMB1,472,102,000), approximately RMB1,486,368,000 (30 June 2016: approximately RMB1,524,203,000) and approximately RMB2,020,379,000 (30 June 2016: approximately RMB2,109,891,000) respectively.

Borrowings

As at 30 June 2017, the Group had no bank borrowings (30 June 2016: Nil).

Equity

Total equity attributable to equity shareholders of the Company as at 30 June 2017 decreased by approximately RMB88,359,000 to approximately RMB2,001,163,000 (30 June 2016: approximately RMB2,089,522,000).

Gearing ratio

The gearing ratio (calculated as the ratio of total liabilities divided by total equity) of the Group as at 30 June 2017 was approximately 0.04 (30 June 2016: approximately 0.04).

USE OF PROCEEDS FROM THE PLACING AND THE PUBLIC OFFER

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") with a total of 287,500,000 offer shares (including shares issued as a result of the exercise of the over-allotment option), and the net proceeds from the placing and the public offer of approximately HK\$1,043,000,000 (the "Net Proceeds") will mainly be utilised as follows:

1. Approximately HK\$711 million will be used for establishment of production facilities for new products of the Group;
2. Approximately HK\$129 million will be used for research and development efforts;
3. Approximately HK\$81 million will be used for network development and sales support services;
4. Approximately HK\$18 million will be used for the Group's information system development; and
5. Approximately HK\$104 million will be used for general working capital.

Up to 30 June 2017, the Group has utilised the Net Proceeds as follows:

1. Approximately HK\$652 million were used for establishment of production facilities for new products of the Group;
2. Approximately HK\$141 million were used for research and development efforts;
3. Approximately HK\$42 million were used for network development and sales support services; and
4. Approximately HK\$3 million were used for the Group's information system development.

The remaining balance of the Net Proceeds has been placed in the short-term deposits with financial institutions.

SHARE CAPITAL

Details of changes in the Company's share capital during the Year were set out in note 12 to the consolidated results of the Group as contained in this announcement.

SIGNIFICANT INVESTMENTS

The Group had no significant investment held during the Year.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED AND JOINT VENTURES

There was no material acquisition or disposal of subsidiaries, associated and joint ventures by the Group during the Year.

EMPLOYEES AND SHARE OPTION SCHEME

As at 30 June 2017, the Group employed a total of 636 employees (30 June 2016: 734). It is the Group's policy to review its employees' pay levels and performance bonus system regularly to ensure the competitiveness of the Group's remuneration policy within the relevant industry. During the Year, the employment cost (excluding Directors' emoluments) amounted to approximately RMB35,049,000 (2016: approximately RMB37,473,000).

In order to provide incentives to the staff, Directors and consultants of the Group, share options would be granted to staff, Directors and consultants under the Company's share option scheme (the "Scheme") adopted on 28 October 2009. During the Year, no option was granted, exercised, cancelled or lapsed under the Scheme. Details of the Scheme are set out in note 13 to the consolidated results of the Group as contained in this announcement.

CHARGE ON ASSETS

As at 30 June 2017, the Group did not have any charges on its assets (30 June 2016: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS AND EXPECTED SOURCES OF FUNDING

The Group had no future plans for material investments or capital assets as at 30 June 2017.

The Group will continue to monitor the industry closely and to formulate and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies primarily in United States dollars and Hong Kong dollars. The Group noted that there was a devaluation of the Renminbi Yuan against foreign currency during the Year. However, the devaluation does not have material effect on the Group's result of operations. The Group did not use any financial instruments to hedge its exposure to currency risk during the Year and will continue to closely monitor such risk exposures from time to time.

CAPITAL COMMITMENT

As at 30 June 2017, the Group had capital expenditure contracted for but not provided in the financial statements and capital expenditure authorised but not contracted for capital commitments in the consolidated financial statements amounted to approximately RMB1,091,000 (30 June 2016: approximately RMB309,000) and approximately RMB52,634,000 (30 June 2016: approximately RMB57,167,000) respectively.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any material contingent liabilities (30 June 2016: Nil).

DIVIDENDS

The Board does not recommend the payment of any final dividend for the Year (2016: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE

The Company has complied with most of the code provisions stipulated in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the Year, except for the deviation from the Code Provision A.2.1 of the Code as described below.

Code provision A.2.1

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. Mr. Wong Fun Chung is the Chairman and the Chief Executive Officer of the Company. Such deviation from Code provision A.2.1 is deemed appropriate as it is considered to be more efficient to have one single person as the Chairman of the Company as well as to discharge the executive functions of a chief executive officer, and this provides the Group with strong and consistent leadership in the development and execution of long term business strategies. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises highly experienced individuals. There are three independent non-executive directors on the Board. All of them possess adequate independence and therefore the Board considers the Company has achieved balance and provided sufficient protection of its interests.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the required standard for securities transactions by Directors.

Having made specific enquiries of all Directors, all Directors confirmed to the Company that they have complied with the Model Code during the Year.

REMUNERATION COMMITTEE

The Group established its remuneration committee (the "Remuneration Committee") since 2008 with written terms of reference in compliance with the Code. The primary duties of the Remuneration Committee are, inter alia, to make recommendations to the Board on the remuneration packages of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee comprises all three independent non-executive directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Group established the Nomination Committee since 2008 with written terms of reference in compliance with the Code. The primary duties of the Nomination Committee are, inter alia, to review the structure, size, composition and diversity of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to make recommendations to the Board on appointment or re-appointment of directors and succession planning for the Directors, and to review the board diversity policy of the Company as appropriate.

The Nomination Committee comprises three independent non-executive directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor is the chairman of the Nomination Committee.

AUDIT COMMITTEE

The Group established its audit committee (the “Audit Committee”) since 2008 with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are, inter alia, to assist the Board in providing an independent view of the effectiveness of the Group’s financial reporting system, internal control and risk management system, to review and monitor the audit process, to review the Company’s financial information, and to perform other duties and responsibilities as assigned by the Board. The Audit Committee currently comprises three independent non-executive directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor is the chairman of the Audit Committee. The Audit Committee has reviewed the annual results of the Group for the year ended 30 June 2017.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Notice of the forthcoming annual general meeting of the Company (“AGM”) will be published on the Stock Exchange’s website at www.hkexnews.hk and the Company’s website at www.chpag.net.

The register of members of the Company will be closed for the purpose of ascertaining the right of shareholders of the Company to attend and vote at the AGM from Friday, 24 November 2017 to Thursday, 30 November 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Thursday, 23 November 2017.

PUBLICATION OF THE ANNUAL RESULTS AND THE ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the Company’s website at www.chpag.net.

The annual consolidated financial results of the Group for the Year have been reviewed by the Audit Committee and are extracted from the annual consolidated financial statements for the Year to be included in the 2017 annual report of the Company.

The 2017 annual report of the Company will be dispatched to the shareholders of the Company and published on the Company’s website at www.chpag.net and the Stock Exchange’s website at www.hkexnews.hk in due course.

SUSPENSION OF TRADING

Trading in the shares of the Company has been suspended since 9:00 a.m. on 22 August 2012, and will remain suspended until further notice.

By order of the Board
China High Precision Automation Group Limited
Wong Fun Chung
Chairman

Hong Kong, 29 September 2017

As at the date of this announcement, the executive directors are Mr. Wong Fun Chung, Mr. Zou Chong, Mr. Su Fang Zhong and Mr. Cheung Chuen, and the independent non-executive directors are Ms. Ji Qin Zhi, Dr. Hu Guo Qing and Mr. Chan Yuk Hiu, Taylor.