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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)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

The board (the “Board”) of directors (the “Directors”) of China High Precision Automation Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 31 December 2017 (the “Period”) together with the comparative figures for the corresponding period in 2016 and the relevant explanatory notes.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2017

(Expressed in Renminbi Yuan)

		Six months ended	
		31 December	
		2017	2016
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
<b>Turnover</b>	3	<b>55,741</b>	64,071
Cost of sales		<u>(73,227)</u>	<u>(78,692)</u>
<b>Gross loss</b>		<b>(17,486)</b>	(14,621)
Other income	4	<b>3,893</b>	4,031
Other gain/(loss)	4	<b>6,196</b>	3,861
Distribution costs		<b>(1,524)</b>	(1,435)
Administrative expenses		<u>(20,466)</u>	<u>(20,299)</u>
<b>Loss from operations</b>		<b>(29,387)</b>	(28,463)
Finance costs		<u>—</u>	<u>—</u>
<b>Loss before taxation</b>	5	<b>(29,387)</b>	(28,463)
Income tax	6	<u><b>561</b></u>	<u>—</u>
<b>Loss for the period attributable to equity shareholders of the Company</b>		<u><b>(28,826)</b></u>	<u>(28,463)</u>
<b>Loss per share (RMB cents)</b>			
— basic	7	<b>(2.78)</b>	(2.74)
— diluted	7	<u><b>(2.78)</b></u>	<u>(2.74)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*For the six months ended 31 December 2017*

(Expressed in Renminbi Yuan)

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Loss for the period attributable to equity shareholders of the Company</b>	<b>(28,826)</b>	<b>(28,463)</b>
<b>Other comprehensive expenses for the period</b>		
<b>Items that may be subsequently reclassified to profit or loss:</b>		
Exchange differences on translation of financial statements of operations outside the PRC (excluding Hong Kong)	<u><b>(3,415)</b></u>	<u><b>(4,342)</b></u>
<b>Total comprehensive loss for the period attributable to equity shareholders of the Company</b>	<u><u><b>(32,241)</b></u></u>	<u><u><b>(32,805)</b></u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Expressed in Renminbi Yuan)

	<i>Note</i>	As at 31 December 2017 <i>RMB'000</i> (Unaudited)	As at 30 June 2017 <i>RMB'000</i> (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		444,935	474,299
Investment properties		47,393	47,393
Interests in leasehold land held for own use under operating leases		8,615	8,730
Deposits for the purchase of property, plant and equipment		199	311
Long term investments		8,000	—
Deferred tax assets		3,263	3,278
		<u>512,405</u>	<u>534,011</u>
<b>Current assets</b>			
Inventories		42,642	40,052
Trade and other receivables	9	67,554	63,233
Cash and cash equivalents		1,434,085	1,446,994
		<u>1,544,281</u>	<u>1,550,279</u>
<b>Current liabilities</b>			
Trade and other payables	10	68,660	63,339
Provision for warranties		465	572
		<u>69,125</u>	<u>63,911</u>
<b>Net current assets</b>		<b>1,475,156</b>	<b>1,486,368</b>
<b>Total assets less current liabilities</b>		<b>1,987,561</b>	<b>2,020,379</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		18,639	19,216
<b>NET ASSETS</b>		<b><u>1,968,922</u></b>	<b><u>2,001,163</u></b>
<b>CAPITAL AND RESERVES</b>			
Share capital		91,360	91,360
Reserves		1,877,562	1,909,803
<b>TOTAL EQUITY</b>		<b><u>1,968,922</u></b>	<b><u>2,001,163</u></b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2017 — unaudited

(Expressed in Renminbi Yuan)

	Attributable to equity shareholders of the Company							Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Surplus reserve RMB'000	Other reserve RMB'000	Revaluation reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	
<b>Balance at 1 July 2016</b>	91,360	941,077	181,790	2,982	2,986	(21,058)	890,385	2,089,522
<b>Changes in equity for the year ended 30 June 2017:</b>								
Loss for the year	—	—	—	—	—	—	(89,686)	(89,686)
Other comprehensive income								
Transfer of reserves upon lapse of share option	—	—	—	—	—	1,327	(89,686)	(88,359)
<b>Total comprehensive expenses</b>	—	—	—	—	—	1,327	(89,686)	(88,359)
<b>Balance at 30 June 2017 and 1 July 2017</b>	91,360	941,077	181,790	2,982	2,986	(19,731)	800,699	2,001,163
<b>Changes in equity for the six months ended 31 December 2017:</b>								
Loss for the period	—	—	—	—	—	—	(28,826)	(28,826)
Other comprehensive expenses	—	—	—	—	—	(3,415)	—	(3,415)
<b>Total comprehensive expenses</b>	—	—	—	—	—	(3,415)	(28,826)	(32,241)
<b>Balance at 31 December 2017</b>	<u>91,360</u>	<u>941,077</u>	<u>181,790</u>	<u>2,982</u>	<u>2,986</u>	<u>(23,146)</u>	<u>771,873</u>	<u>1,968,922</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW***For the six months ended 31 December 2017*

(Expressed in Renminbi Yuan)

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Cash used in operations	<b>(15,350)</b>	(13,853)
PRC income tax paid	<b>—</b>	—
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(15,350)</b>	(13,853)
<b>Net cash generated from investing activities</b>	<b>2,441</b>	2,240
<b>Net cash used in financing activities</b>	<b>—</b>	—
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	<b>(12,909)</b>	(11,613)
<b>Cash and cash equivalents at beginning of the period</b>	<b><u>1,446,994</u></b>	<u>1,472,102</u>
<b>Cash and cash equivalents at end of the period</b>	<b><u><u>1,434,085</u></u></b>	<u><u>1,460,489</u></u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

### 1. BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 26 February 2018.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial information and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with applicable Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 30 June 2017 that is included in the interim financial information as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2017 are available from the Company’s registered office. The auditors have expressed a true and fair view on those financial statements in their report dated 29 September 2017.

### 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new standards, amendments and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company. Of these, the following developments may be relevant to the Group:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to HKFRS 15	Clarification to HKFRS 15
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 16	Leases
HK(IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to HKFRSs	Annual Improvements 2014–2016 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group is in the process of making an assessment of what the impact of these new standards, amendments, and interpretations is expected to be in the period of initial application but is not yet in a position to state whether these new standards, amendments, and interpretations would have a significant impact on the Group's results of operations and financial position.

### 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, and value added taxes and other sales taxes. The amount of each significant category of revenue recognised during the period presented is as follows:

	<b>Six months ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Sales of automation instrument and technology products	<b>50,477</b>	56,392
Sales of horological instruments	<b>5,264</b>	7,679
	<u><b>55,741</b></u>	<u>64,071</u>

During the six months ended 31 December 2017, there was 1 customer (unaudited) with whom transactions have exceeded 10% of the Group's turnover (six months ended 31 December 2016: 1 (unaudited)).

### 4. OTHER INCOME AND OTHER NET GAIN/(LOSS)

	<b>Six months ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Other income</b>		
Bank interest income	<b>2,205</b>	2,223
Reversal of provision for warranties	<b>107</b>	313
Reversal of provision for doubtful debts	<b>—</b>	154
Rental income	<b>1,581</b>	1,341
	<u><b>3,893</b></u>	<u>4,031</u>
<b>Other net gain/(loss)</b>		
Net foreign exchange gain	<b>3,608</b>	3,907
Gain/(loss) on disposal of property, plant and equipment	<b>2,588</b>	(46)
	<u><b>6,196</b></u>	<u>3,861</u>



## 5. LOSS BEFORE TAXATION

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

	<b>Six months ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>(a) Staff costs:</b>		
Contributions to defined contribution retirement plans	921	940
Salaries, wages and other benefits	<u>19,321</u>	<u>18,827</u>
	<u><b>20,242</b></u>	<u><b>19,767</b></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.

	<b>Six months ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>(b) Other items:</b>		
Depreciation	23,713	24,575
Amortisation	113	113
Research and development costs	2,730	2,495
Operating lease charges in respect of properties	1,096	1,101
Cost of inventories sold*	<u>73,227</u>	<u>78,693</u>

\* Cost of inventories includes RMB32,015,000 (unaudited) (six months ended 31 December 2016: RMB32,542,000 (unaudited)) 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 5(b) for each of these types of expenses.

## 6. INCOME TAX

	<b>Six months ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Current tax — PRC Income Tax</b>		
Current period	—	—
<b>Deferred tax</b>		
Current period	<u>(561)</u>	—
	<u><b>(561)</b></u>	<u>—</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 Period (unaudited) (six months ended 31 December 2016: Nil (unaudited)).

No provision for taxation in the PRC has been made as the Group sustained a tax loss for the current period.

- (iii) 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%. On 12 December 2008, 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 to the extent that the profits are likely to be distributed in the foreseeable future.

## 7. 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 RMB28,826,000 (unaudited) (six months ended 31 December 2016: RMB28,463,000 (unaudited)) and the number of 1,037,500,000 ordinary shares (unaudited) (six months ended 31 December 2016: 1,037,500,000 ordinary shares (unaudited)) in issue during the interim period.

### (b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company for the six months ended 31 December 2017 of RMB28,826,000 (unaudited) (six months ended 31 December 2016: loss of RMB28,463,000 (unaudited)) and weighted average number of ordinary shares in issue adjusted for the potential dilutive effects caused by the share options. For the six months ended 31 December 2017 and 31 December 2016, diluted loss per share was equal to the basic loss per share as there was no dilutive potential share outstanding.

	Six months ended 31 December	
	2017	2016
	'000	'000
	(Unaudited)	(Unaudited)
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	—	—
Weighted average number of ordinary shares (diluted)	<u>1,037,500</u>	<u>1,037,500</u>

## 8. 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 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)/profit is "adjusted (loss)/profit from operations". To arrive at reportable segment (loss)/profit, the Group's (loss)/profit 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)/profit 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 six months ended 31 December 2017 and 2016 is set out below.

For the six months ended 31 December	Automation instrument and technology products		Horological instruments		Total	
	2017	2016	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Reportable segment revenue	<u>50,477</u>	<u>56,392</u>	<u>5,264</u>	<u>7,679</u>	<u>55,741</u>	<u>64,071</u>
Reportable segment loss (adjusted loss from operations)	<u>(24,983)</u>	<u>(22,773)</u>	<u>(11,017)</u>	<u>(9,709)</u>	<u>(36,000)</u>	<u>(32,482)</u>
	Automation instrument and technology products		Horological instruments		Total	
	At	At	At	At	At	At
	31 December 2017	30 June 2017	31 December 2017	30 June 2017	31 December 2017	30 June 2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Reportable segment assets	<u>421,331</u>	<u>436,246</u>	<u>145,497</u>	<u>144,362</u>	<u>566,828</u>	<u>580,608</u>
Addition to non-current segment assets during the six months ended 31 December 2017/year	<u>—</u>	<u>108</u>	<u>162</u>	<u>576</u>	<u>162</u>	<u>684</u>
Reportable segment liabilities	<u>15,574</u>	<u>14,242</u>	<u>425</u>	<u>5,722</u>	<u>15,999</u>	<u>19,964</u>

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

	Six months ended 31 December 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
<b>Revenue</b>		
Reportable segment revenue	<u>55,741</u>	<u>64,071</u>
Consolidated turnover	<u><u>55,741</u></u>	<u><u>64,071</u></u>
	Six months ended 31 December 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
<b>(Loss)/Profit</b>		
Reportable segment loss	<u>(36,000)</u>	<u>(32,482)</u>
Unallocated head office and corporate profit	<u>6,613</u>	<u>4,019</u>
Consolidated loss before taxation	<u><u>(29,387)</u></u>	<u><u>(28,463)</u></u>
	At 31 December 2017 RMB'000 (Unaudited)	At 30 June 2017 RMB'000 (Audited)
<b>Assets</b>		
Reportable segment assets	<u>566,828</u>	<u>580,608</u>
Unallocated head office and corporate assets	<u>1,489,858</u>	<u>1,503,682</u>
Consolidated total assets	<u><u>2,056,686</u></u>	<u><u>2,084,290</u></u>
	At 31 December 2017 RMB'000 (Unaudited)	At 30 June 2017 RMB'000 (Audited)
<b>Liabilities</b>		
Reportable segment liabilities	<u>15,999</u>	<u>19,964</u>
Unallocated head office and corporate liabilities	<u>71,765</u>	<u>63,163</u>
Consolidated total liabilities	<u><u>87,764</u></u>	<u><u>83,127</u></u>

## 9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis:

	At 31 December 2017 <i>RMB'000</i> (Unaudited)	At 30 June 2017 <i>RMB'000</i> (Audited)
Neither past due nor impaired (current)	64,686	61,880
Less than 1 month past due	1,703	—
1 to 3 months past due	519	—
	<hr/>	<hr/>
Trade receivables, net of allowance for doubtful debts	66,908	61,880
Prepayments and other receivables	646	1,353
	<hr/>	<hr/>
	<b>67,554</b>	<b>63,233</b>
	<hr/> <hr/>	<hr/> <hr/>

The Group generally grants credit periods of 120 days to 180 days from the date of billing to its customers.

## 10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following ageing analysis:

	At 31 December 2017 <i>RMB'000</i> (Unaudited)	At 30 June 2017 <i>RMB'000</i> (Audited)
Due within 1 month or on demand	7,975	11,532
Due after 1 month but within 3 months	7,820	7,411
Due after 3 months but within 6 months	187	111
Over 6 months	584	560
	<hr/>	<hr/>
Total trade payables	16,566	19,614
Other payables and accruals	52,094	43,725
	<hr/>	<hr/>
	<b>68,660</b>	<b>63,339</b>
	<hr/> <hr/>	<hr/> <hr/>

The credit periods granted by various suppliers are generally 120 days.

## 11. DIVIDENDS

Dividend payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

	<b>Six months ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
No final dividend in respect of the previous financial year, approved and paid during the interim period (six months ended 31 December 2016: Nil (unaudited) per ordinary share)	—	—
	<u>          </u>	<u>          </u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market and Business Review

The traditional downstream industries of the industrial automation instrument industry in which the Company operates includes the fundamental and core industries of the national economy, such as metallurgy, non-ferrous metal, chemicals, power generation, petroleum, construction materials, light industry, water treatment and environmental protection. As of 31 December 2017, these industries are largely affected by the macroeconomic condition and policies of the PRC. Therefore, the development of the Company is closely related to the macroeconomic situation and industrial policy direction of the PRC. In recent years, with the continuous slowdown of the growth of the country's GDP, the demand for the Company's products from the traditional downstream industries remained weak, which has brought a negative impact to the development of the Company. To this end, the Company will proactively take the heed on the change of the macroeconomic form. The Company will also make timely adjustments to the operation strategies in response to the actual situation and actively expand the new business fields that relate to the industry, so as to resolve the risks of environmental change.

### Segment Information

The Group has the following two business segments.

#### *Automation instrument and technology products*

During the six months ended 31 December 2017 (the "Period"), sales of high precision industrial automation instrument and technology products amounted to approximately RMB50,477,000 (six months ended 31 December 2016: approximately RMB56,392,000), representing approximately 90.6% (six months ended 31 December 2016: approximately 88%) of the Group's total turnover. The Group continued to focus on the production and expansion of high precision industrial automation instrument and technology products, and to manage its inventory levels and its distribution network. Reportable segment loss of this business segment was approximately RMB24,983,000 for the Period as compared to that of approximately RMB22,773,000 for the corresponding period in 2016.

#### *Horological instruments*

Sales of horological instruments amounted to approximately RMB5,264,000 (six months ended 31 December 2016: approximately RMB7,679,000), representing approximately 9.4% (six months ended 31 December 2016: approximately 12%) of the Group's total turnover during the Period. This segment recorded reportable segment loss of approximately RMB11,017,000 as compared to that of approximately RMB9,709,000 for the corresponding period 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 Period. In light of the instability of the global market, the Directors will proceed with the future developments cautiously.

## **Prospects**

In these years, although the demand for the industrial automation instruments and systems from traditional downstream industries continues to languish, its development is still highly regarded and strongly supported by the PRC government. The Company is actively expanding the new emerging business fields related to the industry and, targeting at the current development trend of the networking automation instrument products, the Company has established a research and development system based on the Internet of Things, strengthening the basic research and development capability in the application of intelligent instrument networking and continuously enhancing the research and development involvement of new technology and new products. By strengthening the research and development platform on the level of system establishment and improvement, the Company's capability in technological innovation can be secured. In light of the robust demand for intelligent management and automated operation in smart cities and underground corridors reform, the Company will explore for customized overall solutions that integrate products, technologies and services based on "Internet Plus".

## **Financial Review**

### ***Turnover***

Turnover of the Group amounted to approximately RMB55,741,000 for the Period (six months ended 31 December 2016: approximately RMB64,071,000), representing a decrease of approximately 13.0% as compared to that of the corresponding period in 2016. 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, and decrease in unit selling price of our products.

### ***Gross loss and loss from operations***

During the Period, the Group's gross loss and loss from operations amounted to approximately RMB17,486,000 (six months ended 31 December 2016: approximately RMB14,621,000) and approximately RMB29,387,000 (six months ended 31 December 2016: approximately RMB28,463,000) respectively. The gross loss is in line with the decrease in turnover.

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

The segment of horological instruments also suffered a gross loss for the Period while the average unit selling price slightly increased from RMB1.33 for the six months ended 31 December 2016 to RMB1.39 for the Period. The gross loss 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 an intensely price competitive market.

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

### ***Net loss***

The loss attributable to equity shareholders of the Company for the Period was approximately RMB28,826,000, as compared to that of approximately RMB28,463,000 for the corresponding period in 2016. It was mainly due to the factors as mentioned above.

### ***Loss per share***

Both the basic and diluted loss per share for the Period were RMB2.78 cents (six months ended 31 December 2016: both RMB2.74 cents).

### ***Capital Structure, Liquidity and Financial Resources***

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

As at 31 December 2017, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of approximately RMB1,434,085,000 (30 June 2017: approximately RMB1,446,994,000), approximately RMB1,475,156,000 (30 June 2017: approximately RMB1,486,368,000) and approximately RMB1,987,561,000 (30 June 2017: approximately RMB2,020,379,000) respectively.

### ***Borrowings***

As at 31 December 2017, the Group had no bank borrowings (30 June 2017: Nil).

### ***Equity***

Total equity attributable to equity shareholders of the Company as at 31 December 2017 decreased by approximately RMB32,241,000 to approximately RMB1,968,922,000 (30 June 2017: approximately RMB2,001,163,000).

### ***Gearing ratio***

The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: total equity) of the Group as at 31 December 2017 was approximately 0.05 (30 June 2017: 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 (the "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 utilized 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 31 December 2017, the Group has utilized 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\$150 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.

### **Significant Investments**

The Group had no significant investment held during the Period.

### **Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures**

There was no material acquisition or disposal of subsidiaries, associates or joint ventures by the Group during the Period.

### **Employees and Share Option Scheme**

As at 31 December 2017, the Group employed a total of 641 employees (30 June 2017: 636). 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 Period, the employment cost (including Directors' emoluments) amounted to approximately RMB20,242,000 (six months ended 31 December 2016: approximately RMB19,767,000).

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 Period, no option was granted, exercised or cancelled, and all share options were lapsed under the Scheme in the year ended 30 June 2017.

### **Charge on Assets**

As at 31 December 2017, the Group did not have any charges on its assets (30 June 2017: 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 31 December 2017.

The Group will continue to monitor the industry closely 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 Period. 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 Period and will continue to closely monitor such risk exposures from time to time.

## **Capital Commitment**

As at 31 December 2017, the Group had capital expenditure contracted for but not provided in the interim financial results and capital expenditure authorized but not contracted for in the interim financial results amounted to approximately RMB1,091,000 (30 June 2017: approximately RMB1,091,000) and approximately RMB52,472,000 (30 June 2017: approximately RMB52,634,000) respectively.

## **Contingent Liabilities**

As at 31 December 2017, the Group did not have any material contingent liabilities (30 June 2016: Nil).

## **Dividends**

The Board did not recommend the payment of any interim dividend for the six months ended 31 December 2017 (six months ended 31 December 2016: Nil).

## **Events after the Six Months Ended 31 December 2017**

There was no important events affecting the Group which have occurred during the period from 1 January 2018 to the date of this announcement.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

## **CORPORATE GOVERNANCE**

The Company has complied with all material code provisions stipulated in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Listing Rules during the Period, except for the deviation from 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 as well as to discharge the executive functions of a chief executive officer, and it 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 in 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**

The Company has adopted the Model Code as the required standard for securities transactions by the Directors.

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

## **DIRECTORS’ INTEREST IN COMPETING BUSINESS**

During the Period, none of the Directors or the substantial shareholders of the Company, or any of their respective associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

## **REMUNERATION COMMITTEE**

As at 31 December 2017 and the date of this announcement, the remuneration committee of the Board (the “Remuneration 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 its chairman. The Remuneration Committee is primarily responsible for, inter alia, making recommendations to the Board on the remuneration packages of the Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

## **NOMINATION COMMITTEE**

The Group established a nomination committee (the “Nomination Committee”) since 2008 with written terms of reference which are 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. As at 31 December 2017 and the date of this announcement, 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 its chairman.

## **AUDIT COMMITTEE**

The Board established an audit committee (the “Audit Committee”) since 2008 with written terms of reference which are 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. As at 31 December 2017 and the date of this announcement, the Audit 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 its Chairman.

## **REVIEW OF INTERIM RESULTS**

The Audit Committee has reviewed, with the management, the unaudited interim results for the six months ended 31 December 2017, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters. They considered that the preparation of the unaudited consolidated interim financial statements of the Group for the six months ended 31 December 2017 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

## **PUBLICATION OF THE INTERIM RESULTS AND INTERIM FINANCIAL REPORT**

This interim results announcement is published on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and the Company at [www.chpag.net](http://www.chpag.net). The interim financial report of the Company for the six months ended 31 December 2017 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the aforementioned websites 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, 26 February 2018

*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.*