THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Automation Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

中國自動化集團有限公司
China Automation Group Limited
(HK stock code 0569)
(Incorporated in the Cayman Islands with limited liability)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET HOSPITAL GROUP AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A "Letter from the Board" is set out on pages 6 to 25 of this circular. A "Letter from the Independent Board Committee" is set out on page 26 of this circular. A "Letter from the Independent Financial Adviser" containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 45 of this circular.

A notice convening the EGM of the Company to be held at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 12 July 2017 at 10:00 a.m. is set out on pages N-1 to N-2 of this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

23 June 2017

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In this circular, the following expressions shall, unless the context requires otherwise, have the following meanings:

"2016 Actual Net Profit"	the consolidated net profit after tax of the Target Group attributable to owners of the Target Company for the financial year ended 31 December 2016 which shall exclude non-recurring or non-operational items such as dividend withholding tax and gain or loss due to foreign exchange fluctuation
"AACL"	Ascendent Automation (Cayman) Limited, the holder of the Exchange Right and a direct wholly-owned subsidiary of ACP Fund II
"ACP Fund I"	Ascendent Capital Partners I, L.P., holding 100% equity interest in the Vendor
"ACP Fund II"	Ascendent Capital Partners II, L.P.
"Araco"	Araco Investment Limited, a company indirectly wholly-owned by Mr. Xuan
"associate"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Bondholder(s)"	holder(s) of the Convertible Bond
"Business Day"	a day (other than a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted or is in effect in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m. on weekdays) on which licensed banks are generally open for business in Hong Kong and the PRC
"BVI"	the British Virgin Islands
"Company"	China Automation Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Proposed Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement

"Completion Date"	a day falling on the third (3rd) Business Day following the day on which all of the conditions precedent set out in the Sale and Purchase Agreement have been fulfilled or (where capable of waiver) waived (or such later time and/or date as the parties may agree)
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration for the Sale Shares payable by the Company pursuant to the Sale and Purchase Agreement
"Controlling Shareholder" or "Mr. Xuan"	Mr. Xuan Ruiguo, the chairman of the Company and an executive Director, who is interested in approximately 74.54% of the Shares as at the Latest Practicable Date
"Conversion Price"	the initial conversion price of RMB1.0640 per Conversion Share (subject to adjustments)
"Conversion Rights"	the rights attached to the Convertible Bond to convert the principal amount thereof into the Conversion Shares
"Conversion Share(s)"	the Share(s) to be allotted and issued by the Company upon the exercise of the Conversion Rights
"Convertible Bond"	convertible bond to be issued by the Company to the Vendor pursuant to the Sale and Purchase Agreement
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 12 July 2017 at 10:00 a.m. to consider, and if thought fit, approve the Proposed Acquisition and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Proposed Acquisition
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HK Co"	Etern Healthcare (HK) Limited, a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Hospital Co"	Suzhou Yongding Hospital Company Limited* (蘇州永鼎醫院有限公司), a limited company incorporated in PRC owned as to 98% by the Target Company which is principally engaged in hospital business in Suzhou, PRC
"Independent Board Committee"	an independent committee of the Board comprising all independent non-executive Directors to be established for the purpose of advising the Independent Shareholders in respect of, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond)
"Independent Financial Adviser" or "Amasse Capital"	Amasse Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond)
"Independent Shareholders"	the Shareholders other than those that are required under the Listing Rules to abstain from voting on the resolution(s) to be proposed at the EGM
"Latest Practicable Date"	20 June, 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	the date which is six (6) months from the date of the Sale and Purchase Agreement, or such later date as the parties may agree in writing
"PRC"	the People's Republic of China (excluding Hong Kong, the Macau Special Administrative Region of the PRC or Taiwan for the purposes of this circular)
"Proposed Acquisition"	the proposed acquisition of the Sale Shares by the Company from the Vendor pursuant to the terms and conditions of the Sale and Purchase Agreement
"RMB"	Renminbi, the lawful currency of PRC

"Sale and Purchase Agreement"	the conditional agreement dated 30 March 2017 (as amended by the supplemental agreement to the Sale and Purchase Agreement dated 23 June 2017) entered into between the Company and the Vendor in relation to, among other things, the Proposed Acquisition
"Sale Shares"	the shares representing 60% of the total issued share capital of the Target Company
"SFO"	Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Share Option Scheme"	the existing share option scheme adopted by the Company on 16th June, 2007
"Shareholder(s)"	holder(s) of Share(s)
"Shareholders' Agreement"	the agreement to be entered into between the Company, the Vendor and the Target Company at Completion to regulate the rights and obligations of the Company and the Vendor in relation to their investment in the Target Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs
"Target Company"	Etern Group Limited, a company incorporated under the laws of the BVI and an investment holding company with its principal assets being its indirect investment in the 98% equity interest in Hospital Co
"Target Group" or "Target Hospital Group"	the Target Company and its subsidiaries
"Target Shares"	the issued shares of the Target Company from time to time
"Trading day"	a day (other than a Saturday or a Sunday) when the Stock Exchange is open for the business of dealing in securities
"Vendor"	Ascendent Healthcare (Cayman) Limited, an exempted company incorporated in the Cayman Islands with limited liability on 12 February 2014 and is wholly-owned by ACP Fund I

"WFOE"	Suzhou Yongding Healthcare Investment Management Company Limited* (蘇州永鼎醫療投資管理有限公司), a wholly foreign owned enterprise incorporated in PRC which is wholly-owned by the Target Company through HK Co and is holding 98% equity interest in Hospital Co
"%"	percentage

* *English names of the PRC established companies in this circular are only translations of their official Chinese names and are solely for identification purpose. In case of inconsistency, the Chinese names shall prevail.*

中國自動化集團有限公司
China Automation Group Limited
(HK stock code 0569)
(Incorporated in the Cayman Islands with limited liability)

Executive Directors:
Mr. Xuan Rui Guo *(Chairman)*
Mr. Wang Chuensheng

Independent Non-Executive Directors:
Mr. Wang Tai Wen
Mr. Zhang Xin Zhi
Mr. Ng Wing Fai

Registered Office:
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Unit 3205B-3206
32nd Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

23 June 2017

To the Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET HOSPITAL GROUP AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcements of the Company respectively dated 30 March 2017 and 23 June 2017 in relation to, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond).

The purpose of this circular is to provide you with, among other things, (i) further details of the Proposed Acquisition; (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond); (iii) a letter of advice from the Independent Financial Adviser to the Independent

Board Committee and the Independent Shareholders in respect of, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond); (iv) the financial information of the Group; (v) the financial information of the Target Group; (vi) the unaudited pro forma financial information of the Enlarged Group assuming Completion had taken place on 31 December 2016; (vii) other information required to be disclosed under the Listing Rules; and (viii) a notice of the EGM.

On 30 March 2017, the Company and the Vendor entered into the Sale and Purchase Agreement (as amended by the supplemental agreement to the Sale and Purchase Agreement dated 23 June 2017) pursuant to which, the Company conditionally agreed to acquire 60% of the total issued share capital of the Target Company from the Vendor for a Consideration of an amount equal to sixty per cent (60%) of the 2016 Actual Net Profit multiplied by twenty (20), which shall be settled by way of issue of the Convertible Bond in the principal amount equal to the Consideration by the Company to the Vendor at Completion. Principal terms of the Sale and Purchase Agreement are set out below.

THE SALE AND PURCHASE AGREEMENT

Date

30 March 2017 and 23 June 2017

Parties

(1) the Company as the purchaser; and

(2) Ascendent Healthcare (Cayman) Limited as the Vendor

Interest to be acquired

Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase the Sale Shares representing 60% of the total issued share capital of the Target Company which held 98% of the equity interest in Hospital Co through its wholly-owned subsidiaries.

Consideration

The Consideration shall be an amount equal to sixty per cent (60%) of the 2016 Actual Net Profit multiplied by twenty (20), provided that if the Consideration calculated in accordance with the aforesaid manner is less than RMB620,000,000 or more than RMB760,000,000, either the Vendor or the Company may elect not to proceed with the Completion.

As calculated based on the audited consolidated financial statements of the Target Group for the year ended 31 December 2016, the Consideration shall be RMB675,588,000.

The Consideration shall be settled by way of issue of the Convertible Bond in the principal amount equal to the Consideration by the Company to the Vendor at Completion. Particulars of the Convertible Bond are set out in the section headed "The Convertible Bond" below.

The Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to, among other things, the price-to-earnings ratios with a range between 23.10 times and 33.74 times as at 30 March 2017 (being the date of the Sale and Purchase Agreement) of four companies listed on the Stock Exchange which are engaging in businesses similar to that of the Target Group. On this basis, the Board considers that the price-to-earnings ratio of 20 times for the Target Group is fair and reasonable.

Conditions Precedent

The Proposed Acquisition is conditional upon the satisfaction of the following:

(i) the passing of one or more resolutions of the Shareholders at the EGM in accordance with the requirements of the Listing Rules, the Takeovers Code and the Companies Act of the Cayman Islands:

  (a) approving the Proposed Acquisition on the terms of the Sale and Purchase Agreement;

  (b) approving the issue of the Convertible Bond; and

  (c) authorising the Directors to issue the Conversion Shares;

(ii) the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares issuable upon the conversion of the Convertible Bond (and such permission not having been revoked);

(iii) the auditor having delivered to each of the Vendor and the Company the audited accounts of the Target Group for the year ended 31 December 2016; and

(iv) any other regulatory or governmental and third party's approvals, consent or waiver required for the purpose of the transaction contemplated under the Sale and Purchase Agreement having been obtained by the Vendor or the Company to the extent applicable.

If any of the above conditions is not satisfied or (where capable of waiver) waived by the Long Stop Date, then the Sale and Purchase Agreement shall terminate and no party shall have any rights or liabilities under it except for any rights or liabilities that have already accrued under the Sale and Purchase Agreement in relation to a breach of the Sale and Purchase Agreement and certain provisions under the Sale and Purchase Agreement.

None of the above conditions, if applicable, are capable of being waived. As at the Latest Practicable Late, none of the above conditions has been fulfilled.

Additional Undertakings by the Vendor

(1) The Vendor undertakes to the Company that if the Vendor or any of its affiliates plan to sell any direct or indirect interests in any of its investee companies that operate hospital business in the PRC (the "**Hospital Interest**"), the Vendor or its relevant affiliate (the "**Disposing Party**") shall send a written notice to the Company stating the Disposing Party's intention to sell the Hospital Interest ("**Disposal Notice**"). After the Company's receipt of the Disposal Notice, the Company and the Disposing Party shall discuss and explore a transaction in which the Company will acquire the Hospital Interest. If the Company and the Disposing Party fail to enter into definitive agreements with regard to the Company's acquisition of the Hospital Interest within 60 days after the delivery of the Disposal Notice, the Disposing Party may sell the Hospital Interest to any other third party.

(2) The Vendor agrees and undertakes to attend to all filing, notification and other obligations of the Vendor and the Target Group pursuant to or in connection with 國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知(國稅函 [2009] 698號)(Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Income Derived from Equity Transfer Made by Non-Resident Enterprises) (Guo Shui Han [2009] No.698) effective as from 1 January 2008 ("**Circular 698**"), and 關於非居民企業間接轉讓財產企業所得稅若干問題的公告 (Circular on Several Issues Relating to Corporate Income Tax on Gains from Indirect Transfer of Assets by Non-resident Enterprises) issued on 3 February 2015 ("**Bulletin 7**"), (a) as they are in force at the Completion Date or (b) as they are deemed to have been in force at the Completion Date by virtue of an amendment to or re-enactment of Circular 698 and/or Bulletin 7 issued within six (6) years of the Completion Date in respect of the transaction under the Sale and Purchase Agreement.

Completion

Completion shall take place at 4:00 p.m. on the third Business Day following the day on which all of the conditions precedent set out above have been fulfilled or (where capable of waiver) waived (or such later time and/or date as the parties may agree).

Upon Completion, the Target Company will become a subsidiary of the Company holding 60% equity interest therein and accordingly, the financial results of the Target Group will be consolidated into the accounts of the Group.

THE SHAREHOLDERS' AGREEMENT

At Completion, the Company and Vendor shall, and the Vendor shall procure that the Target Company shall enter into the Shareholders' Agreement in the form as set out in the schedule to the Sale and Purchase Agreement to regulate their respective rights and obligations in relation to their investment in the Target Company. The principal terms of the Shareholders' Agreement are as follows:

Parties:

(1) The Company;

(2) The Vendor; and

(3) The Target Company

(the Company and the Vendor, together the "**Target Co Shareholders**")

Principal business of the Target Company

The business of the Target Company is the operation of a general hospital (綜合醫院) in the PRC through its subsidiaries.

Right of first offer

If any Target Co Shareholder proposes to directly or indirectly sell, give, assign, transfer, or otherwise dispose of any Target Shares to any person other than its affiliate(s), the other Target Co Shareholders shall have a right of first offer to purchase such Target Shares.

Meeting of the Target Co Shareholders

Subject to matters otherwise required by applicable laws or the Memorandum and Articles of Association of the Target Company, all matters to be approved by the Target Co Shareholders shall be approved by simple majority according to the Target Shares held by the Target Co Shareholders present (whether in person or by proxy) at such meeting of the Target Co Shareholders, save and except for the reserved matters as set out in the Shareholders' Agreement which shall require approval of the Target Co Shareholders in aggregate holding not less than 75% of the Target Shares.

Composition and meeting of the board of the Target Company

The number of directors constituting the entire board of directors of the Target Company (the "**Target Board**") shall be five. Provided that the Vendor holds at least 25% of the issued Target Shares, it shall have the right to nominate two directors (and a replacement director upon the removal of each such director) of the Target Company. The Company shall have the right to nominate three directors (and a replacement director upon the removal of each such director) and the chairman of the Target Company.

All meetings of the Target Board shall require a quorum of at least four directors, one of whom shall be a director nominated by the Vendor. The adoption of any resolution of the Target Board shall require the affirmative vote of at least 50% of the directors present at a duly constituted meeting of the Target Board.

Profit distribution

If the Target Board decides to distribute dividends, the dividends shall be distributed to the Target Co Shareholders in proportion to their respective shareholding percentage in the Target Company at the time of the distribution.

THE CONVERTIBLE BOND

Principal terms of the Convertible Bond

The principal terms of the Convertible Bond are as follows:–

Issuer:	The Company
Principal amount:	An amount equal to the Consideration to be denoted in RMB
Issue date:	Completion Date
Maturity date:	A date falling on the 10th anniversary of the issue date (the "**CB Maturity Date**")
Interest and variable interest:	If and whenever the Company shall make any cash distribution to the Shareholders (in their capacity as such), the Bondholder shall be entitled to a cash payment (the "**variable interest**") from the Company in respect of the Convertible Bond held by such Bondholder on an as-converted basis. Save and except the variable interest (if any), the Convertible Bond will bear no interest.
Conversion Price:	RMB1.0640 (subject to adjustments)
Conversion Shares:	Based on the Consideration payable and the initial Conversion Price, 634,951,127 Conversion Shares may fall to be allotted and issued upon exercise of the Conversion Rights in full, which represents (i) approximately 61.87% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 38.22% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.
Conversion Rights:	Subject to the restrictions below, the Bondholder shall have the right to convert on any Business Day in whole or in part the outstanding principal amount of the Convertible Bond at the Conversion Price, provided that such part of the principal amount of the Convertible Bond has not previously been converted or redeemed or cancelled. The principal amount of the Convertible Bond to be converted on each occasion shall not be less than RMB1,000,000 or shall be in integral multiple(s) of RMB1,000,000, unless the outstanding principal amount of the Convertible Bond is less than RMB1,000,000 and in such event the entire outstanding principal amount shall be converted.

No conversion of the Convertible Bond shall take place if and to the extent that, immediately following such conversion, the Company will be unable to meet the public float requirement under the Listing Rules. The Company may require that the Bondholder convert any portion or all of the Convertible Bond and the Bondholder shall effect such conversion to the extent that (a) the public float will not be less than 26% immediately following the conversion; and (b)(i) the conversion will not result in the Bondholder and the parties acting in concert with such Bondholder triggering any obligation under Rule 26 of the Takeovers Code to make a general offer, or (ii) the conversion is permissible under the Takeovers Code following the application by the Bondholder and granting by the executive of a whitewash waiver and the approval of the Shareholders in this regard, or (iii) the fulfillment by such Bondholder of sufficient financial resources to make a general offer pursuant to Rule 26 of the Takeovers Code.

If any conversion triggers an obligation to make a general offer under the Takeovers Code, the Controlling Shareholder shall not be obliged to provide any financial assistance for or in connection with such general offer.

Adjustment to Conversion Price:

The Conversion Price shall from time to time be adjusted upon the occurrence of the following events in relation to the Company:

(i) consolidation, sub-division or re-classification of Shares;

(ii) capitalisation of profits or reserves of the Company;

(iii) dividend or distribution in specie or other property (but excluding scrip dividend) by the Company;

(iv) rights issues of the Shares or options over the Shares at a price less than 80% of the Current Market Price;

(v) issues of Shares or securities convertible into Shares at a price less than 80% of the Current Market Price; and

(vi) issues of Shares or securities convertible into Shares for an acquisition of assets by the Company at a price less than 80% of the Current Market Price.

Current Market Price means, in respect of Shares on a particular date, the average closing price per Share quoted on the daily quotation sheets published by the Stock Exchange for each of the 10 days immediately preceding such date when the Shares are traded on the Stock Exchange.

Notwithstanding the above, no adjustment shall be made to the Conversion Price if:

(a) it would result in the Conversion Price being reduced so that on conversion, the Shares would fall to be issued at a discount to their nominal value, and in such case an adjustment shall be made to the effect that the Conversion Price will be reduced to the nominal value of the Shares;

(b) the Vendor and/or any of its affiliates becomes the Shareholder holding more than 30% of the Shares; or

(c) the event giving rise to any adjustment occurs with the mutual consent or agreement of the Company and the Vendor and the Controlling Shareholder remains to be the controlling shareholder (as defined under the Listing Rules) of the Company and the largest Shareholder.

Redemption: Unless previously converted, redeemed or cancelled, the Convertible Bond shall be redeemed by the Company on the CB Maturity Date, at the principal amount then outstanding.

If any of the following events (the "**Event of Default**") occurs, the Vendor or its affiliate may by written notice (the "**Redemption Notice**") to the Company declare that the portion of the Convertible Bond held by the Vendor and its affiliates (the "**Ascendent Bond**") is immediately due and payable at its principal amount then outstanding without further demand, notice or other legal formality of any kind unless such Event of Default has been remedied by the Company within 14 Trading Days after the Redemption Notice has been served:–

(a) within 18 months from the issue date of the Convertible Bond, the Shares (as a class) cease to be listed on the Main Board of the Stock Exchange or any other international stock exchange for a continuous period of 40 Trading Days due to the reasons attributable to the Company and that are under the control of the Company; provided that if such cessation is (i) caused by any matters related to the operation of or business carried on by the Target Group or (ii) consented to in writing by the Vendor, then it does not constitute an Event of Default; or

(b) the Company materially defaults in performance or compliance with its obligations under certain conditions of the Convertible Bond the breach or default of which is incapable of remedy or, if capable of remedy, is not remedied within 14 Trading Days after notice of such breach or default is sent from the Vendor or its relevant affiliate to the Company.

If the Vendor or its relevant affiliate declares that the Ascendent Bond is immediately due and payable at its principal amount then outstanding in accordance with the above, then, subject to the compliance with the Listing Rules and the approval of the Shareholders (if required), the Vendor and/or its relevant affiliate and the Company shall each use its best efforts to procure the transfer of such number of Target Shares equal to the portion of the outstanding principal amount of the Ascendent Bond to the initial principal amount of the Convertible Bond multiplied by 60% of the then issued share capital of the Target Group (the "**Transfer Shares**") from the Company to the Vendor within five (5) Business Days after the later date of, (i) the date on which the Redemption Notice is delivered to the Company; or (ii) the date on which all the steps of the compliance with the Listing Rules have been completed and the approval of the Shareholders (if required) is obtained.

If the Shareholders do not approve such transfer of the Transfer Shares or such transfer of the Transfer Shares is not completed within thirty (30) days after the delivery of the Redemption Notice for any reason whatsoever, the Company shall within twenty (20) Business Days redeem the Ascendent Bond at its outstanding principal amount in cash.

Notwithstanding anything contained herein, the above shall cease to apply and have no effect if the Vendor or any of its affiliates becomes a controlling shareholder (as defined under the Listing Rules) of the Company.

Transferability: The Convertible Bond will be freely transferable, in whole or in part, to any person. A Convertible Bond may be transferred to any person in whole multiples of RMB1,000,000 (or such lesser amount as may represent the entire principal amount thereof).

Status:

(a) Subject to (b) below, the obligations of the Company arising under the Convertible Bond constitute general, unconditional, unsecured, unsubordinated obligations of the Company, and shall rank pari passu among themselves and with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law and the High Yield Bond Obligations (as defined below).

(b) The obligations of the Company under the terms and conditions of the Convertible Bond shall be subordinated to its obligations (the "**High Yield Bond Obligations**") under the indenture dated 11 December 2015 and entered into among the Company, Tri-Control Automation Company Limited and Citicorp International Limited and other parties with regard to the issuance of the 8.75% guaranteed senior notes due 2018 in the principal amount of US$30 million and other obligations of the Company that rank pari passu with the High Yield Bond Obligations.

Voting rights: The Bondholder will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the Bondholder.

Listing: The Convertible Bond will not be listed on the Stock Exchange or any other stock exchanges. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conversion Price

The initial Conversion Price of RMB1.0640 (equivalent to approximately HK$1.20) per Conversion Share (subject to adjustments) represents:

(a) a discount of approximately 9.09% to the closing price of HK$1.32 equivalent to approximately RMB1.17 per Share as quoted on the Stock Exchange on the date of signing of the Sale and Purchase Agreement;

(b) a discount of approximately 10.45% to the average closing price of HK$1.34 equivalent to approximately RMB1.19 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days immediately prior to the date of signing of the Sale and Purchase Agreement;

(c) a discount of approximately 3.23% to the closing price of HK$1.24 equivalent to approximately RMB1.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(d) a discount of approximately 3.07% to the average closing price of HK$1.238 equivalent to approximately RMB1.10 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days immediately prior to the Latest Practicable Date.

The Conversion Price was determined after arm's length negotiations between the Company and the Vendor, with reference to the recent performance of the Shares, the Group's existing financial position and current market conditions.

Conversion Shares

Based on the Consideration payable and the initial Conversion Price of RMB1.0640, 634,951,127 Conversion Shares may fall to be allotted and issued upon exercise of the Conversion Rights in full, which represents (i) approximately 61.87% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 38.22% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares, when issued and fully paid, will rank pari passu in all respects with each other and with other Shares then in issue at the time of issue of the Conversion Shares. The allotment and issue of the Conversion Shares to the Vendor upon exercise of the conversion right attaching to the Convertible Bond may result in a change of control of the Company.

The Conversion Shares which may fall to be allotted and issued upon exercise of the conversion right attaching to the Convertible Bond will be subject to a specific mandate to be sought at the EGM.

Accounting treatment of the Convertible Bond

The Convertible Bond will be accounted for as a debt security in the consolidated financial statements of the Enlarged Group, designated as financial instrument at fair value through profit and loss, and will be measured at fair value on the actual Completion Date of the Proposed Acquisition considering both the fair values of the debt component and the conversion feature. The conversion option is a derivative as it will be settled other than by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments. Any transaction costs directly attributable to the issuance of the Convertible Bond are recognised immediately in profit or loss.

CHANGES IN SHAREHOLDING STRUCTURE

Exchange right held by AACL

Reference is made to the composite document dated 5 August 2016 jointly issued by the Company and Araco in relation to, among other things, a conditional mandatory cash offer made by Somerley Capital Limited on behalf of Araco to (i) acquire all the then issued Shares (other than those already owned by Araco, AACL and parties acting in concert with any of them (collectively the "**Concert Group**")) (the "**Share Offer**"); and (ii) cancel all the then outstanding options of the Company (other than those already owned by the Concert Group) (together with the Share Offer, the "**Offers**"). The Offers became unconditional and was closed on 9 September 2016.

On 23 June 2016, AACL (as financier) and Araco (as borrower) entered into a facility agreement to provide financing to Araco to pay for the consideration under the Offers (the "**Facility Agreement**"). Pursuant to a consortium agreement dated 23 June 2016 (the "**Consortium Agreement**") and the side-letter dated 14 March 2017 entered into by, among others, AACL and Araco, before 15 September 2017 (or such other date as determined by AACL), AACL shall have the right (the "**Exchange Right**") to require, among other things, Araco to transfer the Shares at the offer price under the Share Offer to it to discharge some or all of the amount then owing by Araco to AACL pursuant to the Facility Agreement and/or to purchase some or all of the Shares then held by Araco in order to achieve an allocation of the Shares between Araco and AACL as specified under the Consortium Agreement. If the Exchange Right is exercised in full, AACL will hold 248,235,132 Shares (the "**Exchange Shares**") as a result of such exercise.

Changes in shareholding structure

As at the Latest Practicable Date, the Company has 1,026,263,729 Shares in issue. Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after full exercise of the Exchange Right by AACL (assuming that the number of total issued Shares has not been changed since the Latest Practicable Date); (iii) immediately after full conversion of the Convertible Bond (assuming that the number of total issued Shares has not been changed since the Latest Practicable Date other than the issue of the Conversion Shares); and (iv) immediately after the events described in (ii) and (iii):

	As at the Latest Practicable Date		**Immediately following full exercise of Exchange Right (i)**		**Immediately following full conversion of the Convertible Bond (ii)** *(Note 1)*		**Immediately following (i) + (ii)**	
	Number of Shares	*approx. %*	*Number of Shares*	*approx. %*	*Number of Shares*	*approx. %*	*Number of Shares*	*approx. %*
Mr. Xuan	1,000,000	0.10%	1,000,000	0.10%	1,000,000	0.06%	1,000,000	0.06%
Araco *(Note 2)*	763,931,296	74.44%	515,696,164	50.25%	763,931,296	45.99%	515,696,164	31.04%
AACL	–	–	248,235,132	24.19%	–	–	248,235,132	14.94%
Vendor	–	–	–	–	634,951,127	38.22%	634,951,127 *(Note 3)*	38.22%
Public Shareholders	261,332,433	25.46%	261,332,433	25.46%	261,332,433	15.73%	261,332,433	15.73%
Total	1,026,263,729	100.00%	1,026,263,729	100.00%	1,661,214,856	100.00%	1,661,214,856	100.00%

Notes:

1. This is a theoretical illustration only, assuming that the Convertible Bond has been converted in full at the initial Conversion Price, and the number of Conversion Shares will be 634,951,127 Shares. Such conversion will result in a change of control of the Company. However, under the terms of the Convertible Bond, Bondholders shall not convert the Convertible Bond if such conversion will result in non-compliance with the public float requirement. Should any conversion trigger an obligation of the Bondholder to make a general offer pursuant to Rule 26 of the Takeovers Code, such Bondholder should comply with the applicable requirements under the Takeovers Code.

2. Araco is indirectly wholly-owned by Mr. Xuan.

3. After the exercise of the Exchange Right and the full conversion of the Convertible Bond, the Vendor together with AACL will be interested in 883,186,259 Shares, representing approximately 53.17% of the enlarged issued share capital of the Company.

4. Any discrepancies between the total figures and the sums of direct aggregations are due to the rounding off of decimal places.

INFORMATION OF THE TARGET GROUP

Based on the information provided by the Vendor, the Target Company, a wholly-owned subsidiary of the Vendor, is a limited company incorporated under the laws of the BVI and is an investment holding company with its principal assets being its indirect investment in the 98% equity interest in Hospital Co.

According to the Vendor, (i) the Vendor acquired the Target Company (which held Hospital Co) in May 2014 and paid an acquisition consideration of RMB160 million and staged trademark license fee of approximately RMB60 million; (ii) since its acquisition, the Hospital Co has grown significantly in scale and profitability and the profit before tax of the Hospital Co has increased more than four times to approximately RMB86.4 million for the year ended 31 December 2016 (subject to audit); and (iii) the Vendor has made significant improvements to the business of the Hospital Co, including but not limited to facilitating the change from a non-profit-making hospital to a profit-making hospital, hiring and establishing an experienced hospital management team to drive the business development for the Hospital Co, and continuously investing in the upgrade and expansion of the equipment and facilities of the Hospital Co with accumulated capital expenditure reaching over RMB60 million to date.

The Target Company carries on a hospital business indirectly through Hospital Co. Hospital Co has commenced its operation as a general hospital (綜合醫院) since 2007 in Suzhou, PRC and is currently a privately-owned class II general hospital providing extensive medical services. As at 31 December 2016, it had 480 beds in operation, and had a total of 693 employees which included 323 doctors and technical personnel, 276 nurses and 94 administrative staff.

Set out below are the highlights of the consolidated financial information of the Target Group and the financial information of Hospital Co for the two years ended 31 December 2015 and 2016:

Target Group

	Year ended 31 December	
	2016	**2015**
	(RMB'000)	*(RMB'000)*
	(audited)	*(audited)*
Revenue	368,457	305,201
Profit before taxation	78,475	40,459
Profit for the year	52,988	26,267
Net assets	253,974	202,086

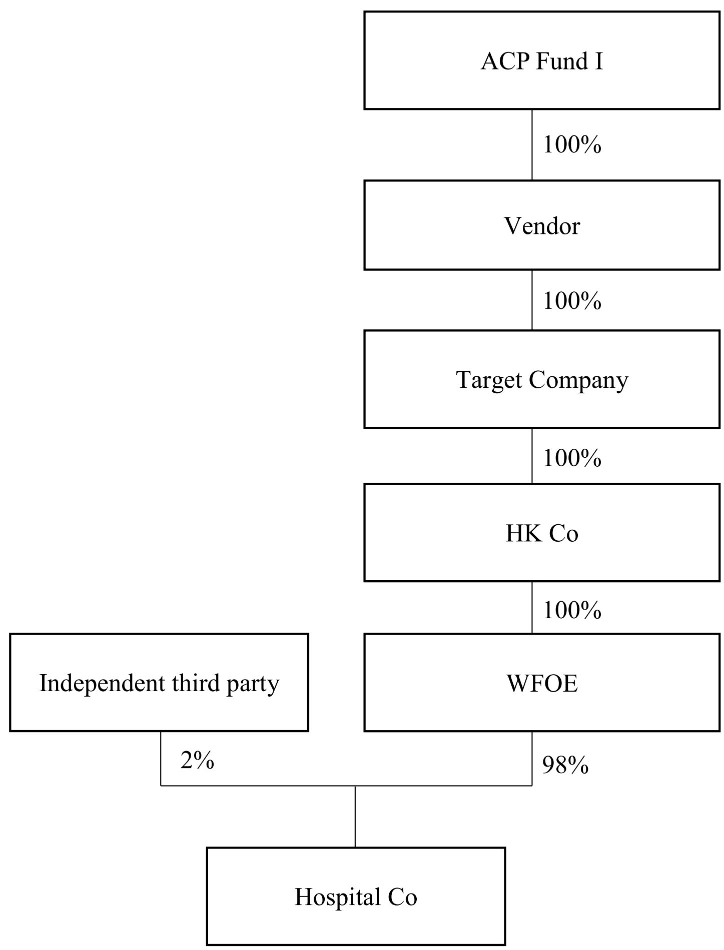
Hospital Co

	Year ended 31 December	
	2016	**2015**
	(RMB'000)	*(RMB'000)*
	(audited)	*(audited)*
	(Note)	*(Note)*
Revenue	370,395	308,212
Profit before taxation	86,337	47,643
Profit for the year	64,175	34,946
Net assets	91,752	82,576

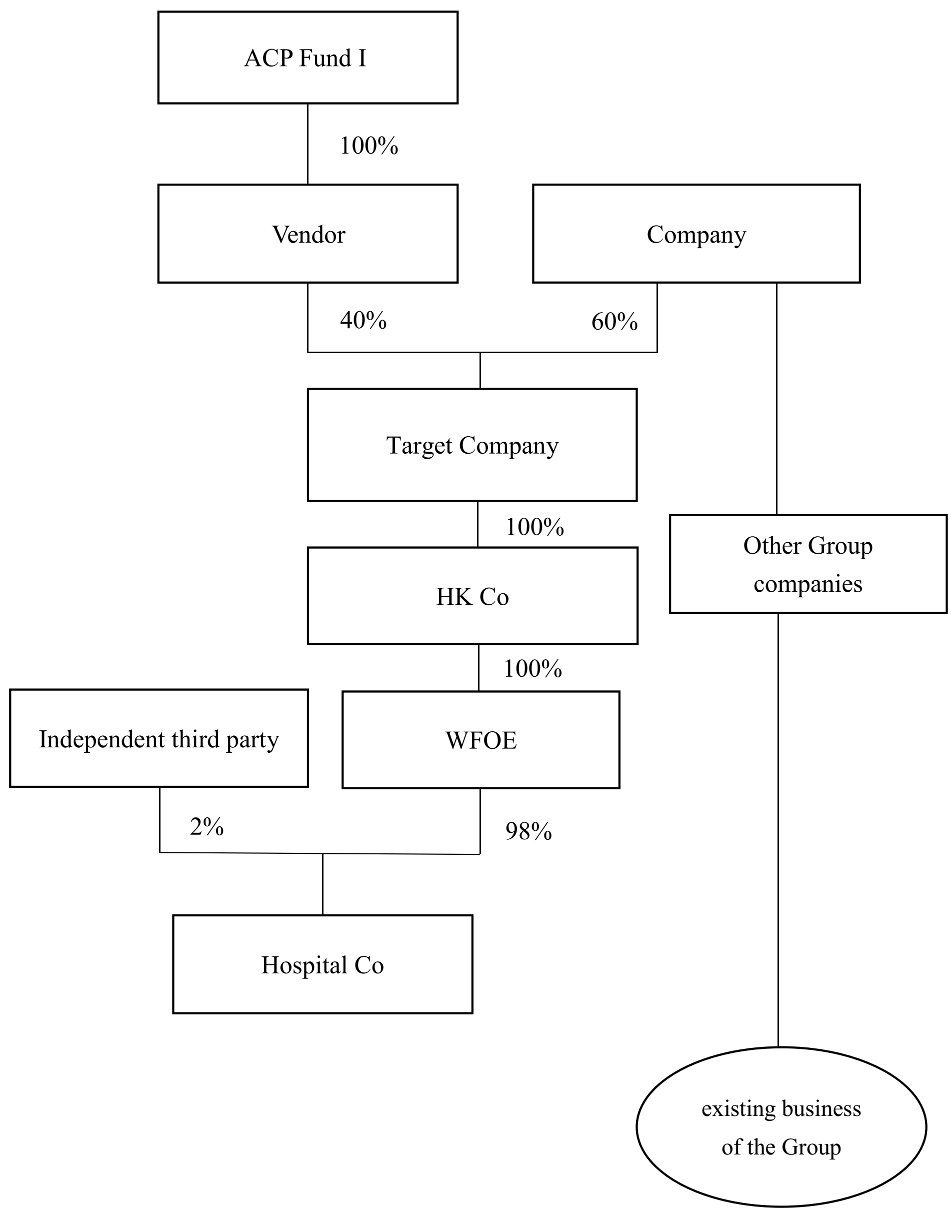
Note: As extracted from audited financial statements of Hospital Co for the two years ended 31 December 2015 and 2016 which were prepared under generally accepted accounting principles of the PRC.

Set out below are charts showing: (a) the existing corporate structure of the Target Group; and (b) the simplified corporate structure of the Target Group immediately after Completion:

(a) The existing corporate structure of the Target Group



(b) The simplified corporate structure of the Target Group immediately after Completion:



INFORMATION OF THE VENDOR

The Vendor is wholly-owned by ACP Fund I. The general partner of ACP Fund I is Ascendent Capital Partners I GP, L.P, the general partner of which is Ascendent Capital Partners I GP Limited. ACP Fund I is managed by Ascendent Capital Partners Limited and advised by Ascendent Capital Partners (Asia) Limited, a private equity investment management firm focused on Greater China-related investment opportunities, managing capital for globally renowned institutional investors including sovereign wealth funds, endowments, pensions and foundations.

AACL, the holder of the Exchange Right, is a direct wholly-owned subsidiary of ACP Fund II. The general partner of ACP Fund II is Ascendent Capital Partners II GP, L.P, the general partner of which is Ascendent Capital Partners II GP Limited. Similar to ACP Fund I, ACP Fund II is managed by Ascendent Capital Partners Limited and advised by Ascendent Capital Partners (Asia) Limited.

AACL is an associate of the Vendor by virtue of common control at the ultimate general partner level of both ACP Fund I and ACP Fund II (which is exercised by members of Ascendent Capital Partners (Asia) Limited) and common management and advisory arrangements with Ascendent Capital Partners Limited and Ascendent Capital Partners (Asia) Limited.

INFORMATION OF THE GROUP

The Group is principally engaged in the provision of safety and critical control systems specialised for the petrochemical and railway industries, along with related maintenance and engineering services.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

Following a detailed strategic review undertaken by the Group for the purpose of formulating business plans and strategies for the future business development, the Board considered that the competition in traction and auxiliary power supply systems market is extremely competitive, and the Group's related business has experienced significant decline, and it would be difficult to improve or sustain profitability. As such, the Group has rolled out an internal restructuring programme to dispose of the non-profit making business units (such as those in the railway segment) when such opportunities arise, but there is no current intention for the disposal of or scale-down of the Group's existing petrochemical business.

The Company has also been considering business opportunities in new business segment(s) to enhance growth potential of the Group. Given the promising prospect of the healthcare services sector in the PRC and the historical profitability of the Target Group, the Board considers the Proposed Acquisition an opportunity to broaden the income source and enhance financial stability to the Group which may help shield the Group from market pressure on its existing core businesses. Currently, no plans to make further investment in the healthcare services sector have been contemplated and no further material capital commitments to the Target Group after Completion have been entered into, but the Company may consider making further investments in the healthcare services sector should suitable opportunities arise.

In view that it is intended that the existing hospital management team will be retained after Completion to continue to operate the business of the Target Group, notwithstanding that the management of the Company is not expert in operation of hospital business, it is expected that the management and operation of the Target Group will continue to be strengthened and the quality of the services provided by Hospital Co to the local community will be further enhanced through additional staff training and recruitment.

The Directors (including the independent non-executive Directors who have taken into account the advice from the Independent Financial Advisor) consider that the terms and conditions of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond) are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

None of the Directors has a material interest in the Proposed Acquisition and had to abstain from voting on the relevant Board resolutions.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

Earnings

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group since the Completion Date. Since the Target Group has been operating profitably over the past few years, it is currently expected that the Proposed Acquisition will bring positive impact on the overall earnings of the Enlarged Group in the short, medium and long run, but the quantification of such impact will depend on the future performance of the Target Group following the Completion.

In addition, given the historical profitability of the Target Group and the promising prospect of healthcare services sector in the PRC, the Company considers that the Proposed Acquisition represents a good opportunity for the Group to broaden its income source.

Assets and liabilities

It is expected that the Proposed Acquisition will result in positive effect on the assets and liabilities of the Enlarged Group immediately following the Completion due to the increase in bank balances and cash as well as net assets brought by the Target Group.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

During the past two years, the continuing adjustments in the economy in China and the sustained sluggishness in oil prices for most of the time dampened demand from the petrochemical and coal chemical industries. Looking ahead, the development of the petrochemical and coal chemical industries still faces serious challenges as global oil prices, while having recovered from their lows, have yet to pick up their way towards sustained rebound in the medium term, and this in turn dampens demand for the industry.

The Board has undertaken a detailed strategic review of the Group for the purpose of formulating business plans and strategies for the future business development and determining what changes, if any, would be appropriate or desirable in order to optimise the business activities of the Group. In this regard, the Enlarged Group will continue its internal restructuring programme to further cut down the non-profit making business units and to retrench redundant staff in order to enhance the Enlarged Group's overall operational efficiency and to maintain its competitiveness. The Directors believe that the Enlarged Group's overall gross/net profit margin could be enhanced through (i) strengthening its management team and streamlining of its operation; (ii) implementation of budgetary planning and control system as well as (iii) other cost control measures.

In addition, while the Company was considering business opportunities in new business segment(s) to enhance growth potential of the Group, the Board considers that the healthcare services industry has a promising prospect that would augment the Group's existing business.

The Board considers that the Proposed Acquisition provides an opportunity for the Group to gain immediate access and exposure to the growing healthcare services industry in China. Based on the statistics published by the National Bureau of Statistics of the PRC, (i) at the end of 2016, there were approximately 29,000 hospitals in China of which approximately 16,000 (or 55% of total number of hospitals in China) were privately run hospitals, increased from approximately 14,500 (or 53% of total number of hospitals in China) privately run hospitals in China at the end of 2015; and (ii) the per capita health expenditure was approximately RMB662 in 2005, and this was increased to approximately RMB2,981 in 2015, representing a compounded annual growth rate of approximately 16.1%. According to the《"十三五"衛生與健康規劃》(13th Five-Year Plan for Healthcare*) announced by The State Council of the PRC in December 2016, the development of healthcare services sector was listed as a priority of the PRC Government. The PRC Government has encouraged the engagement of private healthcare services providers by creating a more favorable policy environment for private hospitals.

In view of the (i) favourable government support for private hospitals and (ii) the expected increase in per capita healthcare expenditure, the Directors currently expect that the demand for high quality healthcare services provided by private hospitals in China will continue to increase. After Completion, the Enlarged Group intends to retain the existing hospital management team to run the business operations of the Target Company. Moreover, in view of the targeted completion of the new phase II hospital building (the "**Phase II Construction Project**") in late 2017, it is currently envisaged that the business of the Target Group will be driven towards further growth. Going forward, the Enlarged Group will continue to strengthen the management and operation of the Target Group as well as to enhance the quality of services that Hospital Co provides to the local community through additional staff training and recruitment.

Given the historical profitability of the Target Group and the promising prospect of healthcare services industry in China, the Company considers that the Proposed Acquisition represents a good opportunity for the Enlarged Group to broaden its income source, and it is currently expected that the Proposed Acquisition will bring positive impact on the overall earnings of the Enlarged Group in the short, medium and long run.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Proposed Acquisition exceed 25% but all are less than 100%, the Proposed Acquisition constitutes a major transaction of the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As stated in the section headed "Changes in shareholding structure – Exchange right held by AACL" above, upon exercise of the Exchange Right by AACL in full and assuming that the number of total issued Shares has not been changed, AACL will hold 248,235,132 Exchange Shares, representing approximately 24.19% of the enlarged issued share capital of the Company. Pursuant to the Consortium Agreement, Araco undertakes to exercise, or procure the exercise of, the voting rights attaching to the Exchange Shares which it owns or controls in accordance with the written instructions of AACL up to the latest date on which the Exchange Right shall be exercised by AACL, provided that this undertaking to exercise any voting rights shall only apply to such number of Exchange Shares which will not result in AACL triggering any obligations to make a mandatory general offer under Rule 26 of the Takeovers Code. As such, AACL is or may be regarded as being entitled to control the exercise of the Exchange Shares before the exercise of the

Exchange Right, and it is or may be regarded as the substantial shareholder of the Company. Accordingly, the Vendor, being an associate of AACL by virtue of common control at the ultimate general partner level and common management and advisory arrangements, is or may also be regarded as a connected person of the Company and the Proposed Acquisition may constitute a connected transaction subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, save for Araco which is required to abstain from voting only in respect of the 248,235,132 Shares held by it which are subject to the Exchange Right, no Shareholder has a material interest in the Proposed Acquisition and thus no Shareholder will be required to abstain from voting on the resolution to approve the Proposed Acquisition at the EGM.

Since the Proposed Acquisition is subject to the fulfillment of the conditions precedent set out in the Sale and Purchase Agreement, and may or may not proceed to Completion, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

EGM

A notice convening the EGM to be held at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 12 July 2017 at 10:00 a.m. is set out on pages N-1 to N-2 of this circular. Ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Proposed Acquisition and the issue of the Convertible Bond.

A form of proxy for use by the Independent Shareholders at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete an accompanying form of proxy in accordance with the instructions printed thereon and deposit the same with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

All the votes at the EGM will be taken by poll. An announcement on the poll results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

RECOMMENDATION

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Wang Tai Wen, Mr. Ng Wing Fai and Mr. Zhang Xin Zhi, who do not have material interests in the Proposed Acquisition, has been formed to advise the Independent Shareholders in respect of, among other things, whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond) are on normal commercial terms, are fair and reasonable and how to vote in respect of the relevant resolution to be proposed at the EGM after taking into account the recommendation of the Independent Financial Adviser. Your attention is drawn to the Letter from the Independent Board Committee set out on page 26 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM regarding the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond).

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 27 to 45 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond).

The Directors (including the independent non-executive Directors, who have taken into account the advice of the Independent Financial Adviser) consider the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, the Directors (including the independent non-executive Directors, who have taken into account the advice of the Independent Financial Adviser) recommended the Independent Shareholders to vote in favour of the proposed resolution approving among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond).

GENERAL

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,
China Automation Group Limited
Xuan Rui Guo
Chairman

23 June 2017

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET HOSPITAL GROUP

We refer to the circular of the Company dated 23 June 2017 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as the members of the Independent Board Committee to advise you on the terms of, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond). Amasse Capital has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out in their letter set out on pages 27 to 45 of the Circular.

Your attention is also drawn to the "Letter from the Board" set out on pages 6 to 25 of the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond) and taking into account the independent advice of Amasse Capital, in particular factors, reasons and recommendation as set out in their letter, we consider that the entering into of, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond), notwithstanding not in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution to be proposed at the EGM to approve the entering into of, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond).

Yours faithfully,
Independent Board Committee

Wang Tai Wen **Ng Wing Fai** **Zhang Xin Zhi**
Independent Non-executive Director

Set out below is the text of a letter received from Amasse Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition for the purpose of inclusion in this circular.

AMASSE CAPITAL
寶 積 資 本

23 June 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET HOSPITAL GROUP

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 23 June 2017 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 30 March 2017, the Company and the Vendor entered into the Sale and Purchase Agreement (as amended by the supplemental agreement to the Sale and Purchase Agreement dated 23 June 2017) pursuant to which, the Company conditionally agreed to acquire 60% of the total issued share capital of the Target Company from the Vendor for a Consideration of an amount equal to sixty per cent (60%) of the 2016 Actual Net Profit multiplied by twenty (20), which shall be settled by way of issue of the Convertible Bond in the principal amount equal to the Consideration by the Company to the Vendor at Completion.

As the applicable percentage ratios in respect of the Proposed Acquisition exceed 25% but all are less than 100%, the Proposed Acquisition constitutes a major transaction of the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As stated in the section headed "Changes in shareholding structure – Exchange right held by AACL" in the Letter from the Board, upon exercise of the Exchange Right by AACL in full and assuming that the number of total issued Shares has not been changed, AACL will hold 248,235,132 Exchange Shares, representing approximately 24.19% of the enlarged issued share capital of the Company. Pursuant to the Consortium Agreement, Araco undertakes to exercise, or procure the exercise of, the voting rights attaching to the Exchange Shares which it owns or controls in accordance with the written instructions of AACL up to the latest date on which the Exchange Right shall be exercised by AACL, provided that this undertaking to exercise any voting rights shall only apply to such number of Exchange Shares which will not result in AACL triggering any obligations to make a mandatory general offer under Rule 26 of the Takeovers Code. As such, AACL is or may be regarded as being entitled to control the exercise of the Exchange Shares before the exercise of the Exchange Right, and it is or may be regarded as the substantial shareholder of the Company. Accordingly, the Vendor, being an associate of AACL by virtue of common control at the ultimate general partner level and common management and advisory arrangements, is or may also be regarded as a connected person of the Company and the Proposed Acquisition may constitute a connected transaction subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all three independent non-executive Directors, namely Mr. Wang Tai Wen, Mr. Ng Wing Fai and Mr. Zhang Xin Zhi, who do not have a material interest in the Proposed Acquisition, has been formed to advise the Independent Shareholders in respect of, among other things, whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond) are on normal commercial terms, are fair and reasonable and how to vote in respect of the relevant resolutions to be proposed at the EGM after taking into account our recommendation. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for any transaction.

With regard to our independence from the Company, it is noted that, apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (the "**Management**"). We have assumed that all information and representations that have been provided by the Management, for which the Directors are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the representation and confirmation of the Management that there are no undisclosed private agreements/ arrangements or implied understanding with anyone concerning the Proposed Acquisition. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted any independent in-depth investigation into the business and affairs of any members of the Group, the counter party(ies) to the Proposed Acquisition or their respective subsidiaries or associates. We also have not considered the taxation implication on the Group or the Shareholders as a result of the Proposed Acquisition. We have not carried out any feasibility study on the past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group. Our opinion has been formed on the assumption that any analysis, estimation, anticipation, condition and assumption provided by the Group are feasible and sustainable. Our opinion shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. We expressly disclaim any liability and/or any loss arising from or in reliance upon the whole or any part of the contents of this letter.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

As stated in the Letter from the Board, the Group is principally engaged in the provision of safety and critical control systems specialised for the petrochemical and railway industries, along with related maintenance and engineering services.

Set out below is a summary of the financial information of the Group for the year ended 31 December 2015 and 2016 as extracted from the annual report of the Company for the year ended 31 December 2016 (the "**Annual Report**"), details of which are as follows:

	Year ended 31 December	
	2016	**2015**
	(RMB'000)	*(RMB'000)*
Revenue	1,195,259	1,640,983
Loss before taxation	(422,842)	(351,316)
Loss for the year attributable to owners of the Company	(390,757)	(105,114)

	As at 31 December	
	2016	**2015**
	(RMB'000)	*(RMB'000)*
Total assets	3,736,797	4,088,237
Total Liabilities	2,224,126	2,167,056
Net assets attributable to the owners of the Company	1,387,640	1,773,010

According to the Annual Report, revenue of the Group for the year ended 31 December 2016 was approximately RMB1,195 million when compared to a revenue of approximately RMB1,641 million for the year ended 31 December 2015, representing a decrease of approximately 27.18%. This decrease was mainly attributable to the decrease in revenue from (i) the segment of safety systems and engineering design services in relation to the petrochemical industries due to slower overall demand stemming from the slowdown in the overall economy in the PRC and the declines in crude oil price; and (ii) the segment of control valve due to (a) plant relocation in the last quarter of 2016 such that it affected, among others, its plant utilisation; (b) the completion of the mega project in 2015 but no such big project won and delivered in 2016; and (c) overall economy slowdown in China and declines in crude oil price.

For the year ended 31 December 2016, the gross profit margin of safety and critical control system and engineering design services in relation to the petrochemical industries decreased significantly by 23.7% points to 4.1% (2015: 27.8%) mainly due to a lower output level and hence weaker economy of scales resulting from keen market competition. In addition, the gross profit margin of control valve in relation to the petrochemical industries decreased by 12.0% points to 16.7% (2015: 28.7%) due to keen price competition in the market as well as the plant relocation such that more fixed costs had been incurred.

Loss attributable to owners of the Company for the year ended 31 December 2016 amounted to approximately RMB391 million when compared to a loss attributable to owners of the Company for the corresponding period in 2015 of approximately RMB105 million, representing an increase of approximately

2.7 times. This increase was mainly attributable to (i) the decrease in revenue and gross profit margin of the Group's major business segment as discussed above and (ii) the completion of the disposal of the Group's 76.7% equity interest in a profitmaking subsidiary, namely Beijing Jiaoda Microunion Technology Company Limited in 2015.

As at 31 December 2016, the Company had audited consolidated total assets, total liabilities and net assets attributable to owners of the Company of approximately RMB3,737 million, RMB2,224 million and RMB1,388 million respectively.

2. Background information of the Target Group

As stated in the Letter from the Board, based on the information provided by the Vendor, the Target Company, a wholly-owned subsidiary of the Vendor, is a limited company incorporated under the laws of the BVI and is an investment holding company with its principal assets being its indirect investment in the 98% equity interest in Hospital Co.

With reference to the Letter from the Board, according to the Vendor, (i) the Vendor acquired the Target Company (which held Hospital Co) in May 2014 and paid an acquisition consideration of RMB 160 million and staged trademark license fee of approximately RMB60 million; (ii) since its acquisition, the Hospital Co has grown significantly in scale and profitability and the profit before tax of the Hospital Co has increased more than four times to approximately RMB86.4 million for the year ended 31 December 2016 (subject to audit); and (iii) the Vendor has made significant improvements to the business of the Hospital Co, including but not limited to facilitating the change from a non-profit-making hospital to a profit-making hospital, hiring and establishing an experienced hospital management team to drive the business development for the Hospital Co, and continuously investing in the upgrade and expansion of the equipment and facilities of the Hospital Co with accumulated capital expenditure reaching over RMB60 million to date.

The Target Company carries on a hospital business indirectly through Hospital Co. Hospital Co has commenced its operation as a general hospital (綜合醫院) since 2007 in Suzhou, PRC and is currently a privately-owned class II general hospital providing extensive medical services. As at 31 December 2016, it had 480 beds in operation, and had a total of 693 employees which included 323 doctors and technical personnel, 276 nurses and 94 administrative staffs.

Financial information of the Target Company

Set out below are the highlights of the consolidated financial information of Target Company for the two financial years ended 31 December 2015 and 2016:

	Year ended 31 December	
	2016	**2015**
	(RMB'000)	*(RMB'000)*
	(audited)	*(audited)*
Revenue	368,457	305,201
Profit before taxation	78,475	40,459
Profit and total comprehensive income for the year attributable to the owners of the Target Company	51,803	25,634

	As at 31 December	
	2016	**2015**
	(RMB'000)	*(RMB'000)*
	(audited)	*(audited)*
Total assets	495,815	418,544
Total liabilities	241,841	216,458
Net assets attributable to the owners of the Target Company	251,356	199,553

The revenue of the Target Company for the year ended 31 December 2016 was approximately RMB368 million when compared to a revenue of approximately RMB305 million for the year ended 31 December 2015, representing an increase of approximately 20.66%. This increase was mainly attributable to the increase in revenue from provision of healthcare services and sales of pharmaceuticals as a result of an increase in number of patients and the expansion of medical service offerings.

Profits and total comprehensive income attributable to the owners of the Target Company for the year ended 31 December 2016 amounted to approximately RMB52 million when compared to a profit and total comprehensive income attributable to the owners of the Target Company for the corresponding period in 2015 of approximately RMB26 million, representing an increase of approximately 100%. This increase was mainly attributable to the increase in revenue of the Target Group as discussed above.

As at 31 December 2016, the Target Company had audited consolidated total assets, total liabilities and net assets attributable to owners of the Target Company of approximately RMB496 million, RMB242 million and RMB251 million respectively.

3. Background information of the Vendor

As stated in the Letter from the Board, the Vendor is wholly-owned by ACP Fund I. The general partner of ACP Fund I is Ascendent Capital Partners I GP, L.P, the general partner of which is Ascendent Capital Partners I GP Limited. ACP Fund I is managed by Ascendent Capital Partners Limited and advised by Ascendent Capital Partners (Asia) Limited, a private equity investment management firm focused on Greater China-related investment opportunities, managing capital for globally renowned institutional investors including sovereign wealth funds, endowments, pensions and foundations.

AACL, the holder of the Exchange Right, is a direct wholly-owned subsidiary of ACP Fund II. The general partner of ACP Fund II is Ascendent Capital Partners II GP, L.P, the general partner of which is Ascendent Capital Partners II GP Limited. Similar to ACP Fund I, ACP Fund II is managed by Ascendent Capital Partners Limited and advised by Ascendent Capital Partners (Asia) Limited.

AACL is an associate of the Vendor by virtue of common control at the ultimate general partner level of both ACP Fund I and ACP Fund II (which is exercised by members of Ascendent Capital Partners (Asia) Limited) and common management and advisory arrangements with Ascendent Capital Partners Limited and Ascendent Capital Partners (Asia) Limited.

4. Reasons for and benefits of the Proposed Acquisition

As stated in the Letter from the Board, given the historical profitability of the Target Group and the promising prospect of the healthcare services sector in PRC, the Proposed Acquisition is expected to broaden the income source and introduce financial stability to the Group which will shield the Company from the unpredictable market pressure on its existing core businesses.

According to the《"十三五"衛生與健康規劃》(13th Five-Year Plan for Healthcare*) announced by The State Council of the PRC in December 2016, the development of healthcare services sector was listed as a priority of the PRC Government. The PRC Government has encouraged the engagement of private healthcare services providers by creating a more favorable policy environment for private hospitals. Furthermore, according to《深化醫藥衛生體制改革2016年重點工作任務》(2016 Major Task List on Deepening the Medical and Health Care System Reform*) (the "**2016 Major Task List**") published by the General Office of The State Council of the PRC in April 2016, the PRC Government has dedicated strong effort to increase the accessibility and affordability of healthcare services in the PRC. According to the 2016 Major Task List, among others, the PRC Government targeted to stabilize the coverage rate of basic medical insurance in the PRC and to increase the government subsidy for urban and rural residents to participate in the basic medical insurance.

Moreover, according to the statistics published by the National Bureau of Statistics of the PRC (中國國家統計局), the per capita health expenditure, which refers to the ratio of total expenditure on health in a year to the average population of the PRC, increased from approximately RMB749 in 2006 to approximately RMB2,981 in 2015, representing a compounded annual growth rate ("**CARG**") of approximately 14.81%. In addition, the number of inpatients in general hospitals of the PRC grew in the past eight years. Based on the statistic published by the National Bureau of Statistics of the PRC, the number of inpatients in general hospitals increased from approximately 58.72 million person in 2008 to approximately 123.35 million person in 2015, representing a CARG of 9.72%.

Taking into consideration of the (i) potential growth in PRC healthcare services sector by the favourable support from the PRC government; (ii) the increase in per capita health expenditure; and (iii) the potential growth in demand of the hospital services as indicated by the increase in number of inpatients, we concur with the view of the Management that the healthcare services sector in the PRC is in a promising prospect.

5. The principal terms of the Sale and Purchase Agreement

Set out below are the principal terms of the Sale and Purchase Agreement.

5.1 Consideration

The Consideration shall be an amount equal to sixty per cent (60%) of the 2016 Actual Net Profit multiplied by twenty (20), provided that if the Consideration calculated in accordance with the aforesaid manner is less than RMB620,000,000 or more than RMB760,000,000, either the Vendor or the Company may elect not to proceed with the Completion. As calculated based on the audited consolidated financial statements of the Target Group for the year ended 31 December 2016, the Consideration shall be RMB675,588,000 (the "**Final Consideration**").

The Consideration shall be settled by way of issue of the Convertible Bond in the principal amount equal to the Consideration by the Company to the Vendor at Completion.

As stated in the Letter from the Board, the Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to, among other things, the price-to-earnings ratios ("**PER**") of companies listed on the Stock Exchange which are engaging in businesses similar to that of the Target Group.

In assessing whether the Consideration is fair and reasonable, we have performed a PER analysis based on search of comparable companies listed on the Stock Exchange. We selected companies based on the following criteria: (i) principally engaged in the business in relation to provision of hospital services which contribute at least 50% to the total revenue; (ii) the revenue streams are mainly retrieved from the PRC that are similar to the Target Group; (iii) currently listed on the Stock Exchange; and (iv) recorded a net profit attributable to the owners of the respective companies in their latest annual reports for comparison. To the best of our knowledge and endeavour, we found 4 Hong Kong listed companies (the "**Market Comparables**") which meet the said criteria and they are exhaustive as far as we are aware of. Shareholders should note that the businesses, operations and prospects of the Target Group are not exactly the same as the Market Comparables.

The details of PER analysis are set out in the table below:

Stock Code	Company Name	Closing Price (HK$) as at 30 March 2017	Number of shares issued as at 30 March 2017	Market Capitalization (HK$) as at 30 March 2017 *(Note 1)*	Net Profit attributable to the owner of the respective companies (HK$) disclosed in the respective latest published financial reports *(Note 2)*	PER as at 30 March 2017 *(Note 3)*
1509	Harmonicare Medical Holdings Limited	4.09	758,418,085	3,101,929,968	107,900,789	28.75
1518	New Century Healthcare Holding Co. Limited	7.20	490,025,000	3,528,180,000	111,200,676	31.73
2120	Wenzhou Kangning Hospital Co., Ltd.	35.85	20,240,000	725,604,000 *(Note 4)*	21,503,864 *(Note 5)*	33.74
3689	Guangdong Kanghua Healthcare Co., Ltd.	11.00	84,394,000	928,334,000 *(Note 4)*	40,192,838 *(Note 5)*	23.10
					Average	29.33
					Minimum	23.10
					Maximum	33.74
					the Proposed Acquisition *(Note 6)*	21.74

Note:

1. Market capitalisation as at 30 March 2017 of the Market Comparables are based on the closing share prices as of 30 March 2017 extracted from the website of the Stock Exchange.

2. The conversions of RMB into HK$ are based on the exchange rate of RMB0.887 to HK$1 announced by The People's Bank of China on 30 March 2017 and for the purpose of illustration only.

3. PER of the Market Comparables are calculated by dividing the market capitalisation by the net profit attributable to the owners of the respective companies disclosed in the respective latest published annual reports.

4. The market capitalisation of these PRC incorporated Market Comparables included H shares only and excluded A share.

5. The net profit attributable to the owners of the respective companies to H shares are calculated by multiplying the net profit attributable to the owners of the respective companies by the proportion of H shares to the total issued share capital of the respective companies.

6. The PER of the Proposed Acquisition is calculated by dividing the Final Consideration (i.e. RMB675,588,000) by 60% of profits and total comprehensive income for the year attributable to the owners of the Target Company (i.e. 60% x RMB51,803,000), the PER of the Proposed Acquisition is 21.74.

As indicated in the above table, the Market Comparables have PER ranging from approximately 23.10 times to approximately 33.74 times with an average of 29.33 times. The PER of the Proposed Acquisition of 21.74 times is below the lower range and the average of the PERs of the Market Comparables.

In light of the above, we consider the total consideration for the Proposed Acquisition is fair and reasonable.

5.2 Conditions Precedent

The Proposed Acquisition is conditional upon the satisfaction of the following:

(i) the passing of one or more resolutions of the Shareholders at the EGM in accordance with the requirements of the Listing Rules, the Takeovers Code and the Companies Act of the Cayman Islands:

   (a) approving the Proposed Acquisition on the terms of the Sale and Purchase Agreement;

   (b) approving the issue of the Convertible Bond; and

   (c) authorising the Directors to issue the Conversion Shares;

(ii) the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares issuable upon the conversion of the Convertible Bond (and such permission not having been revoked);

(iii) the auditor having delivered to each of the Vendor and the Company the audited accounts of the Target Group for the year ended 31 December 2016; and

(iv) any other regulatory or governmental and third party's approvals, consent or waiver required for the purpose of the transaction contemplated under the Sale and Purchase Agreement having been obtained by the Vendor or the Company to the extent applicable.

If any of the above conditions is not satisfied or (where capable of waiver) waived by the Long Stop Date, then the Sale and Purchase Agreement shall terminate and no party shall have any rights or liabilities under it except for any rights or liabilities that have already accrued under the Sale and Purchase Agreement in relation to a breach of the Sale and Purchase Agreement and certain provisions under the Sale and Purchase Agreement.

None of the above conditions, if applicable, are capable of being waived. As at the Latest Practicable Date, none of the above conditions has been fulfilled.

5.3 Additional Undertakings by the Vendor

(1) The Vendor undertakes to the Company that if the Vendor or any of its affiliates plan to sell any direct or indirect interests in any of its investee companies that operate hospital business in the PRC (the "**Hospital Interest**"), the Vendor or its relevant affiliate (the "**Disposing Party**") shall send a written notice to the Company stating the Disposing Party's intention to sell the Hospital Interest ("**Disposal Notice**"). After the Company's receipt of the Disposal Notice, the Company and the Disposing Party shall discuss and explore a transaction in which the Company will acquire the Hospital Interest. If the Company and the Disposing Party fail to enter into definitive agreements with regard to the Company's acquisition of the Hospital Interest within 60 days after the delivery of the Disposal Notice, the Disposing Party may sell the Hospital Interest to any other third party.

(2) The Vendor agrees and undertakes to attend to all filing, notification and other obligations of the Vendor and the Target Group pursuant to or in connection with 國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知(國稅函[2009]698號)(Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Income Derived from Equity Transfer Made by Non-Resident Enterprises) (Guo Shui Han [2009] No.698) effective as from 1 January 2008 ("**Circular 698**"), and 關於非居民企業間接轉讓財產企業所得稅若干問題的公告 (Circular on Several Issues Relating to Corporate Income Tax on Gains from Indirect Transfer of Assets by Non-resident Enterprises) issued on 3 February 2015 ("**Bulletin 7**"), (a) as they are in force at the Completion Date or (b) as they are deemed to have been in force at the Completion Date by virtue of an amendment to or re-enactment of Circular 698 and/or Bulletin 7 issued within six (6) years of the Completion Date in respect of the transaction under the Sale and Purchase Agreement.

6. The principal terms of the Shareholders' Agreement

Set out below are the principal terms of the Shareholders' Agreement.

6.1 Right of first offer

If any Target Co Shareholder proposes to directly or indirectly sell, give, assign, transfer, or otherwise dispose of any Target Shares to any person other than its affiliate(s), the other Target Co Shareholders shall have a right of first offer to purchase such Target Shares.

6.2 Meeting of the Target Co Shareholders

Subject to matters otherwise required by applicable laws or the Memorandum and Articles of Association of the Target Company, all matters to be approved by the Target Co Shareholders shall be approved by simple majority according to the Target Shares held by the Target Co Shareholders present (whether in person or by proxy) at such meeting of the Target Co Shareholders, save and except for the reserved matters as set out in the Shareholders' Agreement which shall require approval of the Target Co Shareholders in aggregate holding not less than 75% of the Target Shares.

6.3 Composition and meeting of the board of the Target Company

The number of directors constituting the entire board of directors of the Target Company (the "**Target Board**") shall be five. Provided that the Vendor holds at least 25% of the issued Target Shares, it shall have the right to nominate two directors (and a replacement director upon the removal of each such director) of the Target Company. The Company shall have the right to nominate three directors (and a replacement director upon the removal of each such director) and the chairman of the Target Company.

All meetings of the Target Board shall require a quorum of at least four directors, one of whom shall be a director nominated by the Vendor. The adoption of any resolution of the Target Board shall require the affirmative vote of at least 50% of the directors present at a duly constituted meeting of the Target Board.

6.4 Profit distribution

If the Target Board decides to distribute dividends, the dividends shall be distributed to the Target Co Shareholders in proportion to their respective shareholding percentage in the Target Company at the time of the distribution.

7. The principal terms of the Convertible Bond

7.1 The principal terms of the Convertible Bond

Maturity date:	A date falling on the 10th anniversary of the issue date (the "**CB Maturity Date**")
Interest and variable interest:	If and whenever the Company shall make any cash distribution to the Shareholders (in their capacity as such), the Bondholder shall be entitled to a cash payment (the "**variable interest**") from the Company in respect of the Convertible Bond held by such Bondholder on an as-converted basis. Save and except the variable interest (if any), the Convertible Bond will bear no interest.
Conversion Price:	RMB1.0640 (subject to adjustments)

Conversion Shares:	Based on the Consideration payable and the initial Conversion Price, 634,951,127 Conversion Shares may fall to be allotted and issued upon exercise of the Conversion Rights in full, which represents (i) approximately 61.87% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 38.22% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.
Conversion Rights:	Subject to the restrictions below, the Bondholder shall have the right to convert on any Business Day in whole or in part the outstanding principal amount of the Convertible Bond at the Conversion Price, provided that such part of the principal amount of the Convertible Bond has not previously been converted or redeemed or cancelled. The principal amount of the Convertible Bond to be converted on each occasion shall not be less than RMB1,000,000 or shall be in integral multiple(s) of RMB1,000,000, unless the outstanding principal amount of the Convertible Bond is less than RMB1,000,000 and in such event the entire outstanding principal amount shall be converted. No conversion of the Convertible Bond shall take place if and to the extent that, immediately following such conversion, the Company will be unable to meet the public float requirement under the Listing Rules. The Company may require that the Bondholder convert any portion or all of the Convertible Bond and the Bondholder shall effect such conversion to the extent that (a) the public float will not be less than 26% immediately following the conversion; and (b)(i) the conversion will not result in the Bondholder and the parties acting in concert with such Bondholder triggering any obligation under Rule 26 of the Takeovers Code to make a general offer, or (ii) the conversion is permissible under the Takeovers Code following the application by the Bondholder and granting by the executive of a whitewash waiver and the approval of the Shareholders in this regard, or (iii) the fulfillment by such Bondholder of sufficient financial resources to make a general offer pursuant to Rule 26 of the Takeovers Code. If any conversion triggers an obligation to make a general offer under the Takeovers Code, the Controlling Shareholder shall not be obliged to provide any financial assistance for or in connection with such general offer.

Other terms of the Convertible Bond are set out in the Letter from the Board.

7.2 Analysis on the principal terms of the Convertible Bond

Pursuant to the Sale and Purchase Agreement, the initial Conversion Price of RMB 1.0640 (equivalent to approximately HK$1.20) per Conversion Share (subject to adjustments), represents:

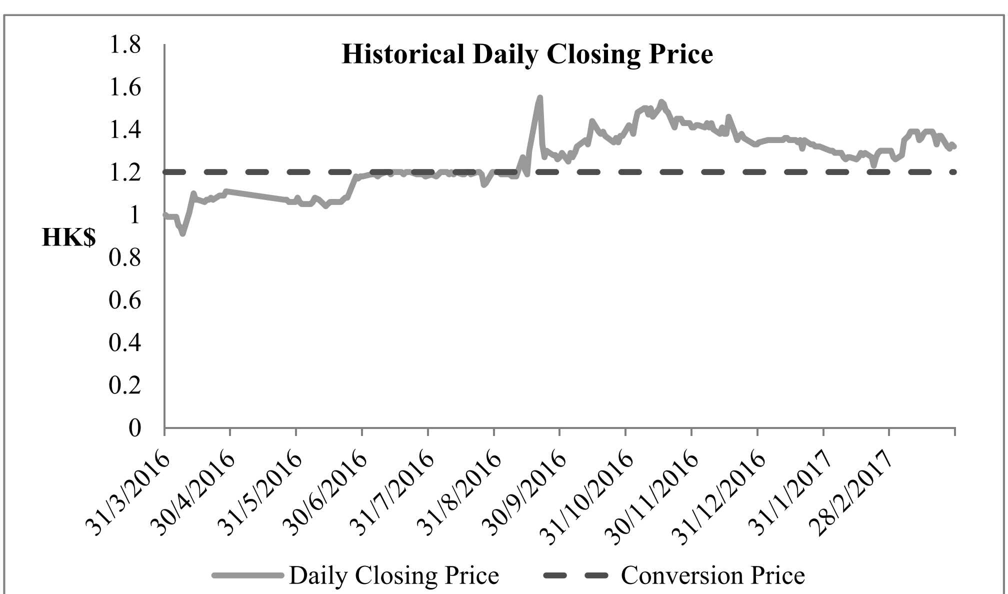
(a) a discount of approximately 9.09% to the closing price of HK$1.32 equivalent to approximately RMB1.17 per Share as quoted on the Stock Exchange on the date of signing of the Sale and Purchase Agreement;

(b) a discount of approximately 10.45% to the average closing price of HK$1.34 equivalent to approximately RMB1.19 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days immediately prior to the date of signing of the Sale and Purchase Agreement;

(c) a discount of approximately 3.23% to the closing price of HK$1.24 equivalent to approximately RMB1.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(d) a discount of approximately 3.07% to the average closing price of HK$1.238 equivalent to approximately RMB1.10 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days immediately prior to the Latest Practicable Date.

To assess the fairness and reasonableness of the Conversion Price, we have compared the Conversion Price with the historical trading price of the Shares in the past 12 months prior to the date of the Sale and Purchase Agreement. The chart below shows the daily closing price of the Shares as quoted on the Stock Exchange versus the Conversion Price for the period commencing from 31 March 2016 up to and including 30 March 2017 (the "**Review Period**"), being the 12-month period prior to the date of the Sale and Purchase Agreement:



Source: the website of the Stock Exchange

During the Review Period, the closing price ranged from a highest of HK$1.55 to a lowest of HK$0.91 per Share, with an average of approximately HK$1.26 per Share. Accordingly, the Conversion Price represents a slight discount of approximately 5.12% to the average closing price for the Review Period.

We have also identified, to the best of our knowledge and as far as we are aware of, 7 transactions (the "**CB Comparables**") involving issue of convertible bonds/notes as all or part of the consideration, announced by companies listed on the Stock Exchange from 31 December 2016 to 30 March 2017 (the "**Selection Period**"), being the recent three months period prior to and including the date of Sale and Purchase Agreement. The CB Comparables represents an exhaustive list that meet the above selection criteria. Shareholders should note that the businesses, operations and prospects of the Company are not the same as those of the CB Comparables. Nevertheless, the CB Comparables can demonstrate the recent market practices.

Table 1: A summary of the CB Comparables

Date of announcement	Company	Stock code	Maturity *(years)*	Interest rate	Premium/(discount) of conversion price over/to the closing price per share on the last trading day prior to the date of the corresponding announcement *(%)*	Premium/(discount) of conversion price over/to the closing price per share on the last five trading days prior to the date of the corresponding announcement or up to and including the date of the corresponding announcement *(%)*
29 March 2017	Jia Meng Holdings Limited	8101	3	0.0%	(11.29)	(13.25)
24 March 2017	Han Tang International Holdings Limited	1187	5	1.5%	(95.40)	(95.84)
24 February 2017	Grand Field Group Holdings Limited	115	1.5	3.0%	(11.37)	(10.60)
17 February 2017	Madison Wine Holdings Limited	8057	5	0.0%	(44.72)	(44.78)
7 February 2017	Chinlink International Holdings Limited	997	2	3.0%	(1.70)	0.00
13 January 2017	HC International, Inc	2280	1,2,3 *(Note)*	0.0%	29.31	30.21
10 January 2017	Midland IC&I Limited	459	4	0.0%	(4.20)	(4.96)
		Maximum	5	3.0%	29.31	30.21
		Minimum	1	0.0%	(95.40)	(95.84)
		Average		1.1%	(19.91)	(19.89)
		The Company	10	0.0%	(9.09)	(10.45)

Source: the announcement of relevant companies published on the Stock Exchange's website

Note: The convertible bonds mature in three tranches on the 15th day from the date of issue of the relevant audited financial statements of the target for each of the three years ending 31 December 2019.

The conversion price of the convertible bonds/notes of the CB Comparables ranged from a discount of approximately 95.40% to a premium of approximately 29.31% to/over the respective closing price per share on the last trading day prior to the date of the corresponding announcement in relation to the respective issue of convertible bonds/notes (the "**Discount/Premium Range**"), with an average discount of approximately 19.91%. The Conversion Price, which represents a discount of approximately 9.09% to the closing price of the Shares on the date of signing of the Sale and Purchase Agreement, falls within the Discount/Premium Range and is lower than the average discount of the CB Comparables. Moreover, the conversion price of the convertible bonds/notes of the CB Comparables ranged from a discount of approximately 95.84% to a premium of approximately 30.21% over/to the closing price per share on the last five trading days prior to the date of the corresponding announcement or up to and including the date of the corresponding announcement (the "**5 Days Discount/Premium Range**"), with an average discount of approximately 19.89%. The Conversion Price, which represents a discount of approximately 10.45% to the average closing price of the Shares for the last five consecutive Trading Days immediately prior to the date of signing of the Sale and Purchase Agreement, falls within the 5 Days Discount/Premium Range and is lower than the average discount of the CB Comparables.

7.3 Interest rate

As stated in the Letter from the Board, if and whenever the Company shall make any cash distribution to the Shareholders (in their capacity as such), the Bondholder shall be entitled to a cash payment (the "**variable interest**") from the Company in respect of the Convertible Bond held by such Bondholder on an as-converted basis. Save and except for the variable interest (if any), the Convertible Bond will bear no interest.

As shown in Table 1 above, the interest rates of the CB Comparables range from nil to 13.00%, with an average of approximately 4.60%. The Convertible Bond is non-interest bearing.

Further, in view of the above, as a proxy to the interest rate, we also researched on the historical dividend record of the Company and noted that the Company has not declared any cash dividend to the Shareholders since the financial year ended 31 December 2012. We also understand from the Management that the making of any cash distribution is at the discretion of the Company.

7.4 Maturity

The maturity of the CB Comparables ranged from 1 year to 5 years. The maturity of the Convertible Bond is 10 years.

Considering that (i) the Convertible Bond is non-interest bearing; (ii) the Company has not declared any cash dividend to the Shareholders since the financial year ended 31 December 2012 and the making of any cash distribution is at the discretion of the Company, we consider the maturity term is acceptable.

In view of the above and taking into account the reasons for and benefits of the Proposed Acquisition as described above, we are of the view that the principal terms of the Convertible Bond including the Conversion Price, the interest and variable interest and maturity of the Convertible Bond are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

8. Financial effects of the Proposed Acquisition

Following Completion, the Target Company will become a non-wholly owned subsidiary of the Company and the results, assets and liabilities of the Target Group will be consolidated into the consolidated financial statements of the Company since the Completion Date.

8.1 Net Assets

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix III to the Circular, the Group had audited net assets of approximately RMB1,513 million as at 31 December 2016. After pro forma adjustments, the Enlarged Group would have unaudited pro forma net assets of approximately RMB1,617 million, representing an increase of approximately 6.87%.

8.2 Working Capital

Given that the Consideration shall be settled by the way of issue of the Convertible Bond in the principal amount equal to the Consideration to the Vendor and no consideration would be paid in cash. As such, we consider that the Proposed Acquisition will not have a material adverse impact on the cash and working capital of the Group.

8.3 Earnings

Since the Target Group has been operating profitably over the past few years, it is currently expected that the Proposed Acquisition will bring positive impact on the overall earnings of the Enlarged Group in the short, medium and long run, but the quantification of such impact will depend on the future performance of the Target Group following the Completion.

It should be noted that the below analyses are for illustrative purpose only and do not purport to represent how the financial position or results of the Group will be upon the Completion.

9. Dilution effect on the shareholding interests of the existing public Shareholders

Exchange right held by AACL

Reference is made to the composite document dated 5 August 2016 jointly issued by the Company and Araco in relation to, among other things, a conditional mandatory cash offer made by Somerley Capital Limited on behalf of Araco to (i) acquire all the then issued Shares (other than those already owned by Araco, AACL and parties acting in concert with any of them (collectively the "**Concert Group**")) (the "**Share Offer**"); and (ii) cancel all the then outstanding options of the Company (other than those already owned by the Concert Group) (together with the Share Offer, the "**Offers**"). The Offers became unconditional and was closed on 9 September 2016.

On 23 June 2016, AACL (as financier) and Araco (as borrower) entered into a facility agreement to provide financing to Araco to pay for the consideration under the Offers (the "**Facility Agreement**"). Pursuant to a consortium agreement dated 23 June 2016 (the "**Consortium Agreement**") and the side-letter dated 14 March 2017 entered into by, among others, AACL and Araco, before 15 September 2017 (or such other date as determined by AACL), AACL shall have the right (the "**Exchange Right**") to require, among other things, Araco to transfer the Shares at the offer price under the Share Offer to it to discharge some or all of the amount then owing by Araco to AACL pursuant to the Facility Agreement and/or to purchase some or all of the Shares then held by Araco in order to achieve an allocation of the Shares between Araco and AACL as specified under the Consortium Agreement. If the Exchange Right is exercised in full, AACL will hold 248,235,132 Shares (the "**Exchange Shares**") as a result of such exercise.

Changes in shareholding structure

As at the Latest Practicable Date, the Company has 1,026,263,729 Shares in issue. Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after full exercise of the Exchange Right by AACL (assuming that the number of total issued Shares has not been changed since the Latest Practicable Date); (iii) immediately after full conversion of the Convertible Bond (assuming that the number of total issued Shares has not been changed since the Latest Practicable Date other than the issue of the Conversion Shares); and (iv) immediately after the events described in (ii) and (iii):

	As at the Latest Practicable Date		Immediately following full exercise of Exchange Right (i)		Immediately following full conversion of the Convertible Bond (ii) *(Note 1)*		Immediately following (i) + (ii)	
	Number of Shares	*approx. %*	*Number of Shares*	*approx. %*	*Number of Shares*	*approx. %*	*Number of Shares*	*approx. %*
Mr. Xuan	1,000,000	0.10%	1,000,000	0.10%	1,000,000	0.06%	1,000,000	0.06%
Araco *(Note 2)*	763,931,296	74.44%	515,696,164	50.25%	763,931,296	45.99%	515,696,164	31.04%
AACL	–	–	248,235,132	24.19%	–	–	248,235,132	14.94%
Vendor	–	–	–	–	634,951,127	38.22%	634,951,127 *(Note 3)*	38.22%
Public Shareholders	261,332,433	25.46%	261,332,433	25.46%	261,332,433	15.73%	261,332,433	15.73%
Total	1,026,263,729	100.00%	1,026,263,729	100.00%	1,661,214,856	100.00%	1,661,214,856	100.00%

Note:

1. This is a theoretical illustration only, assuming that the Convertible Bond has been converted in full at the initial Conversion Price, and the number of Conversion Shares will be 634,951,127 Shares. Such conversion will result in a change of control of the Company. However, under the terms of the Convertible Bond, Bondholders shall not convert the Convertible Bond if such conversion will result in non-compliance with the public float requirement. Should any conversion trigger an obligation of the Bondholder to make a general offer pursuant to Rule 26 of the Takeovers Code, such Bondholder should comply with the applicable requirements under the Takeovers Code.

2. Araco is indirectly wholly-owned by Mr. Xuan.

3. After the exercise of the Exchange Right and the full conversion of the Convertible Bond, the Vendor together with AACL will be interested in 883,186,259 Shares, representing approximately 53.17% of the enlarged issued share capital of the Company.

4. Any discrepancies between the total figures and the sums of direct aggregations are due to the rounding off of decimal places.

Based on the Final Consideration payable and the initial Conversion Price, 634,951,127 Conversion Shares may fall to be allotted and issued upon exercise of the Conversion Rights in full, which represents (i) approximately 61.87% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 38.22% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

With reference to the "Principal terms of the Convertible Bond" under the section headed "THE CONVERTIBLE BOND" in the Letter from the Board, the conversion of the Convertible Bond is subject to, among others, the public float will not be less than 26% immediately following the conversion. The shareholdings held by existing public Shareholders as at the Latest Practicable Date was approximately 25.46%, as such the Convertible Bond is not capable for being converted and we consider that there will be no material dilution effect to the public shareholding under the current circumstances.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond.

Yours faithfully,
For and on behalf of
Amasse Capital Limited
May Tsang
Director

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years ended 31 December 2014, 2015 and 2016 with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited statement of financial position together with the notes on the annual financial statements for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 31 December 2016 has been set out on pages 45 to 125 of the 2016 annual report of the Company which was posted on 25 April 2017 on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the 2016 annual report:

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0425/LTN20170425377.pdf

The audited consolidated financial statements of the Group for the year ended 31 December 2015 has been set out on pages 38 to 119 of the 2015 annual report of the Company which was posted on 26 April 2016 on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the 2015 annual report:

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0426/LTN20160426426.pdf

The audited consolidated financial statements of the Group for the year ended 31 December 2014 has been set out on pages 34 to 101 of the 2014 annual report of the Company which was posted on 24 April 2015 on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the 2014 annual report:

http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0424/LTN20150424467.pdf

INDEBTEDNESS

As at the close of business on 30 April 2017, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group and the Target Group prior to the printing of the Circular, the Group and the Target Group had total issued debts of RMB1,069,403,000. Details of which are as follows:

	RMB'000
Bank and other borrowings	
– Secured *(Note i)* and guaranteed *(Note ii)*	260,000
– Secured *(Note i)* and unguaranteed	148,118
– Unsecured and guaranteed *(Note ii)*	191,080
– Unsecured and unguaranteed	1
	599,199
Long term payable, unsecured and guaranteed *(Note ii)*	69,169
Guaranteed notes, unsecured and guaranteed *(Note ii)*	204,619
Corporate bonds, secured and guaranteed *(Notes i and ii)*	196,416
	1,069,403

Notes:

(i) All securities pledged for the indebtedness are owned by the Group.

(ii) Except for (a) other unsecured borrowing of RMB10,000,000 which is guaranteed by a director of a subsidiary of the Company; (b) corporate bonds with a total carrying amount of RMB196,416,000 which are guaranteed by an independent third party; and (c) unsecured bank borrowings of the Target Group with a total carrying amount of RMB85,000,000 which are guaranteed by an independent third party, all other guaranteed indebtedness of the Group are guaranteed by the Company and/or subsidiaries of the Company.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables in the ordinary course of the business, as at the close of business on 30 April 2017, the Group and the Target Group did not have other debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or material contingent liabilities.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Enlarged Group, including the internally generated funds and the available banking facilities, the Enlarged Group has, in the absence of unforeseeable circumstances, sufficient working capital for its present requirement for the next twelve months from the date of this circular.

MATERIAL ACQUISITION

Subsequent to 31 December 2016, the date to which the latest published audited accounts of the Company have been made up, other than the Proposed Acquisition, none of the members of the Group had acquired or agreed to acquire or was proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the audited financial statements or next published accounts of the Group. The aggregate of the remuneration payable to and benefits in kind receivable by the directors of the Target Company would not be varied in consequence of the Proposed Acquisition.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Company were made up.

1. ACCOUNTANTS' REPORT OF THE TARGET GROUP

The following is the text of a report set out on pages II-1 to II-47, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA AUTOMATION GROUP LIMITED

Introduction

We report on the historical financial information of Etern Group Ltd. (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") set out on pages II-3 to II-47, which comprises the consolidated statements of financial position as at 31 December 2014, 2015 and 2016, the statements of the financial position of the Target Company at 31 December 2014, 2015 and 2016 and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the period from 18 February 2014 (date of incorporation) to 31 December 2014, and for each of the two years ended 31 December 2016 (the "**Relevant Period**") and a summary of significant accounting policies and other explanatory information (collectively referred to as the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-3 to II-47 forms an integral part of this report which has been prepared for inclusion in the circular dated 23 June 2017 issued by China Automation Group Limited in connection with the proposed acquisition of 60% equity interest in the Target Company (the "**Circular**").

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial

Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's and the Target Group's financial position as at 31 December 2014, 2015 and 2016 and of the Target Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

Dividends

We refer to Note 15 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 June 2017

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Period, on which the Historical Financial Information is based, have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by International Accounting Standard Board ("**IASB**") and were audited by us in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**"), and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	From 18 February to 31 December 2014 RMB'000	Year ended 31 December 2015 RMB'000	2016 RMB'000
Revenue	7	168,054	305,201	368,457
Cost of sales		(123,705)	(226,978)	(254,175)
Gross profit		44,349	78,223	114,282
Other income	8	2,197	4,530	3,722
Other gains and losses	9	(943)	(331)	(2,164)
Administrative expenses		(22,181)	(33,311)	(30,999)
Other expenses		(2,388)	(296)	(40)
Finance costs	10	(5,058)	(8,356)	(6,326)
Profit before taxation	11	15,976	40,459	78,475
Income tax expenses	13	(7,656)	(14,192)	(25,487)
Profit and total comprehensive income for the period/year		8,320	26,267	52,988
Profit and total comprehensive income for the period/year attributable to:				
Owners of the Target Company		8,033	25,634	51,803
Non-controlling interest		287	633	1,185
		8,320	26,267	52,988

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December		
		2014	**2015**	**2016**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current Assets				
Property, plant and equipment	*16*	196,430	193,210	202,618
Deposits for acquisition of property, plant and equipment		1,668	369	78
Prepaid lease payments – non-current portion	*17*	36,292	35,409	34,526
Intangible assets	*18*	4,815	4,392	4,714
Goodwill	*19*	14,709	14,709	14,709
Deferred tax assets	*20*	242	231	838
Other non-current assets	*23*	–	25,593	58,172
		254,156	273,913	315,655
Current Assets				
Prepaid lease payments – current portion	*17*	883	883	883
Inventories	*21*	12,725	11,196	13,610
Trade receivables	*22*	23,418	26,380	32,747
Other receivables and prepayments	*23*	12,934	13,536	4,327
Amount due from related parties	*33*	20,000	–	198
Available-for-sale ("**AFS**") financial assets	*24*	–	15,000	–
Bank balances and cash	*25*	64,150	77,636	128,395
		134,110	144,631	180,160
Current Liabilities				
Trade payables	*26*	24,479	34,368	47,235
Other payables, deposits received and accruals	*27*	25,618	23,920	25,940
Income tax payable		6,877	4,882	16,423
Bank borrowings	*28*	135,000	135,000	125,000
Amount due to the immediate holding company	*33*	–	–	7,901
		191,974	198,170	222,499
Net Current Liabilities		(57,864)	(53,539)	(42,339)
Total Assets less Current Liabilities		196,292	220,374	273,316
Capital and reserves				
Share capital	*29*	6	6	6
Share premium and reserves		173,913	199,547	251,350
Equity attributable to:				
Owners of the Target Company		173,919	199,553	251,356
Non-controlling interest		2,520	2,533	2,618
Total Equity		176,439	202,086	253,974
Non-current liabilities				
Deferred tax liabilities	*20*	18,863	17,134	18,227
Deferred income		990	1,154	1,115
		19,853	18,288	19,342
Total Equity and Non-current Liabilities		196,292	220,374	273,316

STATEMENT OF FINANCIAL POSITION

		At 31 December		
		2014	**2015**	**2016**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current Assets				
Interests in a subsidiary	*36*	165,764	165,764	165,764
Current Assets				
Bank balances and cash	*25*	122	113	118
Total Assets		165,886	165,877	165,882
Capital and Reserves				
Share capital	*29*	6	6	6
Reserves	*35*	165,880	165,871	165,876
Total Equity		165,886	165,877	165,882

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Target Company						
	Share Capital	**Share premium**	**Statutory surplus reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000* *Note*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Issue of shares *(Note 29)*	6	165,880	–	–	165,886	–	165,886
Acquisition of a subsidiary *(Note 30)*	–	–	–	–	–	2,833	2,833
Profit and total comprehensive income for the period	–	–	–	8,033	8,033	287	8,320
Dividends declared by a subsidiary	–	–	–	–	–	(600)	(600)
Transfer to statutory surplus reserve fund	–	–	4,456	(4,456)	–	–	–
At 31 December 2014	6	165,880	4,456	3,577	173,919	2,520	176,439
Profit and total comprehensive income for the year	–	–	–	25,634	25,634	633	26,267
Dividends declared by a subsidiary	–	–	–	–	–	(620)	(620)
Transfer to statutory surplus reserve fund	–	–	6,472	(6,472)	–	–	–
At 31 December 2015	6	165,880	10,928	22,739	199,553	2,533	202,086
Profit and total comprehensive income for the year	–	–	–	51,803	51,803	1,185	52,988
Dividends declared by a subsidiary	–	–	–	–	–	(1,100)	(1,100)
Transfer to statutory surplus reserve fund	–	–	11,819	(11,819)	–	–	–
At 31 December 2016	6	165,880	22,747	62,723	251,356	2,618	253,974

Note: As stipulated by the relevant laws and regulations in the People's Republic of China (the "**PRC**"), before distribution of profit each year, the subsidiaries established in the PRC shall set aside 10% of their profit derived in accordance with the generally accepted accounting principles in the PRC to the statutory surplus reserves. The statutory surplus reserves can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

	From 18 February to 31 December 2014	Year ended 31 December 2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Profit before taxation	15,976	40,459	78,475
Adjustments for:			
Interest income	(476)	(1,182)	(159)
Finance costs	5,058	8,356	6,326
Depreciation of property, plant and equipment	11,101	20,833	21,622
Amortisation of intangible assets	252	503	190
Prepaid lease payments released	515	883	883
Trademark license expenses	–	1,200	1,200
Exchange differences	19	382	(9)
Gain on redemption of wealth management products	(405)	(1,153)	(1,102)
(Gain) loss on disposal of property, plant and equipment	(44)	(7)	218
Impairment loss (reversal) on trade receivables	968	(44)	2,426
Operating cash flows before movements in working capital	32,964	70,230	110,070
Decrease (increase) in inventories	3,130	1,529	(2,414)
Decrease (increase) in trade receivables	1,216	(2,918)	(8,793)
Decrease (increase) in other receivables and prepayments	1,088	598	(791)
Increase (decrease) in trade payables	767	9,889	12,867
Increase (decrease) in other payables and accruals	4,704	(890)	1,617
Increase (decrease) in deferred income	990	164	(39)
Cash generated from operations	44,859	78,602	112,517
Income tax paid	(9,686)	(17,905)	(13,460)
Net cash generated from operating activities	35,173	60,697	99,057

	From 18 February to 31 December	Year ended 31 December	
	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Investing activities			
Interest received	476	1,182	159
Net cash outflow on acquisition of a subsidiary *(Note 30)*	(145,452)	–	–
Purchases of property, plant and equipment	(5,859)	(16,335)	(30,957)
Purchase of intangible assets	–	(80)	(512)
Payments for trademark license	–	(28,793)	(33,779)
Proceeds from disposal of property, plant and equipment	322	28	–
Repayment from a related party	–	20,000	–
Advance to related parties	(20,000)	–	(198)
Repayment from non-trade other receivables	18,000	–	10,000
Purchase of wealth management products	(823,400)	(3,404,760)	(2,668,010)
Redemption of wealth management products	823,805	3,390,913	2,684,112
Net cash used in investing activities	(152,108)	(37,845)	(39,185)
Financing activities			
Shares issued	165,886	–	–
New bank borrowings raised	95,000	135,000	210,000
Repayment of bank borrowings	(75,000)	(135,000)	(220,000)
Amount advance from ultimate holding company	–	–	7,430
Dividends paid to a non-controlling shareholder	–	(600)	(620)
Interest paid	(4,782)	(8,384)	(6,403)
Net cash from (used in) financing activities	181,104	(8,984)	(9,593)
Net increase in cash and cash equivalents	64,169	13,868	50,279
Effect of foreign exchange rate changes	(19)	(382)	480
Cash and cash equivalents at the beginning of the period/year	–	64,150	77,636
Cash and cash equivalents at the end of the period/year	64,150	77,636	128,395

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

The Target Company is a company with limited liability incorporated in the British Virgin Islands ("**BVI**") on 18 February 2014. Its immediate holding company is Ascendent Healthcare (Cayman) Limited ("**Ascendent Healthcare**"), a company incorporated in the Cayman Islands, and its ultimate holding company is Ascendent Capital Partners I GP Limited ("**Ascendent Capital**") incorporated in the Cayman Islands, which is owned 50% by each of Mr. Meng Liang and Mr. Zhang Yi Kevin. The registered office and the principal place of business of the Target Company is 171 Main Street, Road Town, Tortola VG1110, the BVI and No.1388 Gaoxin Road, Songling Town, Wujiang District, Suzhou, Jiangsu Province, the PRC, respectively.

On 28 May 2014, the Target Group acquired 100% of the equity interest in 蘇州永鼎醫療管理服務有限公司 ("**Yongding Healthcare**"). Yongding Healthcare owns 98% of the equity interest in 蘇州永鼎醫院有限公司 ("**Yongding Hospital**") which is a privately-owned Class II general hospital in the PRC providing extensive medical services. Details of the acquisition are set out in Note 30.

The Target Company is an investment holding company and the activities of its subsidiaries are set out in Note 36.

The Historical Financial Information are presented in RMB, which is also the functional currency of the Target Company.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which confirm with IFRSs issued by IASB.

In preparing the Historical Financial Information, the directors of the Target Company (the "**Directors**") have given careful consideration of the Target Group in light of its net current liabilities of approximately RMB42,339,000 as at 31 December 2016. At the date of approval of this report, the Target Group has unutilised credit facilities of approximately RMB50,000,000, which are subject to renewal after the next twelve months from 31 December 2016, and the cash inflow from operations in the future based on the cash flow forecast prepared by the Directors, the Directors are satisfied that the Target Group will be able to meet in full its financial obligations in the twelve months from 31 December 2016. Accordingly, the Historical Financial Information have been prepared on a going concern basis.

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSS

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Period, the Target Group has consistently applied the IFRSs, which are effective for the accounting period beginning on 1 January 2016 throughout the Relevant Period.

New and amendments to IFRSs in issue but not yet effective

At the date of this report, the following new and amendments to IFRSs have been issued which are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[6]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatment[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate
6 Effective for annual periods beginning on or after 1 January 2021

The Directors anticipate that the application of the new and amendments to IFRSs, other than those set out below, will have no material impact on the Historical Financial Information.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

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

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("**FVTOCI**"). All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

- The Target Group's AFS financial assets will either be measured at amortised cost, as fair value through profit or loss, or FVTOCI, depending on further assessment of the contractual cash flows of the underlying investments and the Target Group's business model.

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

However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Target Group performs a detailed review.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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

The Target Group has performed a preliminary review of the existing contractual arrangement with its customers and the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amount of revenue recognised for the Target Group's sales and services businesses. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

IFRS 16 Leases

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

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

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

Under IAS 17, the Target Group has already recognised prepaid lease payments for leasehold lands where the Target Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Target Group presents right-of-use assets separately or within the same line item at which the corresponding assets would be presented if they were owned.

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

Furthermore, extensive disclosures are required by IFRS 16.

As disclosed in Note 31, total operating lease commitments for the Target Group as at 31 December 2016 amounted to RMB1,396,000, the Directors do not expect the applicable of IFRS 16 would result in significant impact on the Target Group's results but it is expected that certain of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However it is not practicable to provide a reasonable estimate of the financial effect until the Directors of the Target Company complete a detailed review.

Amendments to IAS 7 Disclosure Initiative

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Historical Financial Information have been prepared in accordance with IFRSs issued by the IASB. In addition the Historical Financial Information include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in the Historical Financial Information are determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Business combinations

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

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

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

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

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Target Group's cash-generating units (or groups of cash-generating units) ("**CGU**") that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment. A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Revenue recognition

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

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income from the provision of healthcare services is recognised when the related services are rendered.

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Retirement benefits costs

Payments to defined contribution retirement benefits schemes, including state-managed retirement benefits schemes in the PRC are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefit

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

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

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

Borrowing costs

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

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

Government grants

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

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

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

Taxation

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially measured at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are carried at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

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

At the end of the reporting period, the Target Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs necessary to make the sale.

Provision

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised in the Historical Financial Information when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Target Group's financial assets are classified into AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

AFS financial assets

AFS financial assets are non-derivatives that either designated as AFS financial assets or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profits or loss.

Debt securities held by the Target Group classified as AFS financial assets are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of AFS investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the AFS investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of active market for that financial asset because of financial difficulties.

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

The Target Group's financial liabilities (including trade and other payables, amounts due to the immediate holding company and bank borrowings) are subsequently measured at amortised cost using effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies which are described in Note 4, the Directors are required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year from the end of each reporting period.

Estimated useful lives and impairment of property, plant and equipment

The Directors determines the estimated useful lives, residual values and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the Directors' experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Directors will increase the depreciation charge where useful lives are estimated to be shorter than the original expected, or will write off or write down obsolete assets that have been abandoned. Actual economic useful lives may differ from estimated economic useful lives. Periodic review could result in a change in depreciation period and therefore depreciation charge in the future periods.

In addition, the Directors assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. When the recoverable amounts of property, plant and equipment differ from the original estimates, adjustment will be made and recognised in the period in which such event takes place. As at 31 December 2014, 2015 and 2016, the carrying amounts of property, plant and equipment are approximately RMB196,430,000, RMB193,210,000 and RMB202,618,000 respectively.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU to which goodwill has been allocated. The recoverable amount based on value in use calculation requires the Directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash inflows, a material impairment loss may arise. During the Relevant Period, there is no impairment losses on goodwill required to be recognised. Details of the recoverable amount calculation for the impairments assessment are disclosed in Note 19.

6. SEGMENT INFORMATION

The Directors are identified as the chief operating decision maker (the "**CODM**") of the Target Group for the purposes of resources allocation and performance assessment. The Target Group currently operates in sales of pharmaceuticals and provision of healthcare services which is considered to be a single operating. A single management team reports are provided to the CODM to assess the Target Group's performance and allocate the resources as a whole. Accordingly, no segment information is reported. For the Relevant Period, all revenue and non-current assets of the Target Group are derived and located in the PRC.

7. REVENUE

An analysis of the Target Group's revenue for the Relevant Period are as follows:

	From 18 February to 31 December	Year ended 31 December	
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Provision of healthcare services	95,492	171,074	207,943
Sales of pharmaceuticals	72,562	134,127	160,514
	168,054	305,201	368,457

8. OTHER INCOME

	From 18 February to 31 December	Year ended 31 December	
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Interest income on:			
bank deposits	129	91	159
loan receivables *(Note 33 (a))*	347	1,091	–
AFS financial assets	405	1,153	1,102
Government grant *(Note)*	1,300	2,140	2,400
Others	16	55	61
	2,197	4,530	3,722

Note: Government grants included under other income mainly include the government subsidies received by the Target Group from relevant government department for its provision of healthcare services to the public. There is no conditions attached to these subsidies.

In addition, the Target Group received government subsidies in connection with expenses on medical aid, which have been treated as deferred income shown under non-current liabilities in the consolidated statements of financial position. Deferred income are recognised in the profit or loss and deducted from the relevant expenses when actually incurred by the Target Group.

9. OTHER GAINS AND LOSSES

	From 18 February to 31 December	Year ended 31 December	
	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Foreign exchange (loss) gain	(19)	(382)	480
Impairment (loss) reversal on trade receivables	(968)	44	(2,426)
Gain (loss) on disposal of property, plant and equipment	44	7	(218)
	(943)	(331)	(2,164)

10. FINANCE COSTS

	From 18 February to 31 December	Year ended 31 December	
	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank borrowings	5,058	8,356	6,326

No interest was capitalised during the Relevant Period.

11. PROFIT BEFORE TAXATION

The Target Group's profits before taxation has been arrived at after charging the following items:

	From 18 February to 31 December	Year ended 31 December	
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation of property, plant and equipment included in:			
– Cost of sales	10,044	18,882	19,544
– Administrative expenses	1,057	1,951	2,078
	11,101	20,833	21,622
Amortisation of intangible assets included in administrative expenses	252	503	190
Total depreciation and amortisation	11,353	21,336	21,812
Auditors' remuneration	75	107	107
Amortisation of prepaid lease payments	515	883	883
Trademark license expenses *(Note 23)* (included in cost of sales)	800	1,200	1,200
Operating lease payments in respect of rented premises	161	166	182
Management fees *(Note)*	4,648	3,898	–
Brand royalties *(Note)* (included in cost of sales)	1,560	3,065	1,000
Consultancy fees *(Note)*	–	–	1,000
Staff cost (including directors' emoluments *(Note12)*):			
– Salaries and other benefits	36,171	66,127	74,945
– Retirement benefit contributions	1,627	3,792	4,086
Total staff cost	37,798	69,919	79,031
Cost of inventories recognised as expense	70,278	125,971	142,823

Note: Yongding Hospital, a subsidiary of the Target Company, entered into a cooperation agreement with 上海仁濟醫療管理有限公司 ("**Renji Hospital**"), which is an independent third-party, on 12 January 2011 (the "**Cooperation Agreement**"). Pursuant to the Cooperation Agreement, Yongding Hospital is operated by management personnel from Renji Hospital from 1 January 2011 to 31 December 2015, and authorised to use the name of Renji Hospital for business promotion. In reward, Yongding Hospital agreed to pay management fees and brand royalties to Renji Hospital annually. The brand royalties are determined based on revenue for the relevant years while the management fees are performance-related incentive payments, mainly for the services in connection with the general management of the affairs of Yongding Hospital.

On 10 October 2015, both parties renewed the Cooperation Agreement. From 1 January 2016 to 31 December 2020, Yongding Hospital is still authorised to use the name of Renji Hospital. However, consultancy services instead of management personnel are provided by Renji Hospital to Yongding Hospital. An annual fixed amount of consultancy fees and brand royalties of RMB1,000,000 each are charged since 1 January 2016.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The Directors are Mr. Meng Liang and Mr. Zhang Yi Kevin. The Directors' emoluments are borne by Ascendent Capital, the Target Company's ultimate holding company. The corresponding portion attributable to the Target Company was considered insignificant and has not been charged back to the Target Company.

The aggregate of the emoluments in respect of the five highest paid individuals who are not a director of the Target Company during the Relevant Period are as follows:

	From 18 February to 31 December	Year ended 31 December	
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	1,075	1,836	2,152
Retirement benefit contributions	13	29	47
	1,088	1,865	2,199

The number of the five highest paid individuals who are not the directors of the Target Company whose emoluments fell are within the following band is as follows:

	Number of employees		
	2014	**2015**	**2016**
Nil to Hong Kong Dollar ("**HK$**") 1,000,000	5	5	5

During the Relevant Period, there was no arrangement under which the Directors waived or agreed to waive any emoluments.

13. INCOME TAX EXPENSES

	From 18 February to 31 December	Year ended 31 December	
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Current tax:			
PRC enterprise income tax	6,808	13,274	22,321
Withholding tax	–	2,636	2,680
	6,808	15,910	25,001
Deferred tax *(Note 20)*:			
Current period	848	(1,718)	486
	7,656	14,192	25,487

The applicable PRC enterprise income tax rate is 25% throughout the Relevant Period.

No provision for Hong Kong Profits Tax has been made as the Target Group has no assessable profit for the Relevant Period.

Income tax charges for the Relevant Period can be reconciled to the profits before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	From 18 February to 31 December	Year ended 31 December	
	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	15,976	40,459	78,475
PRC enterprise income tax at 25%	3,994	10,115	19,619
Tax effect on:			
Expenses not deductible for tax purpose	1,085	885	764
Tax losses not recognised	18	146	128
Withholding tax on undistributed profit of PRC subsidiaries	2,559	3,046	4,976
Tax charge for the period/year	7,656	14,192	25,487

14. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful.

15. DIVIDENDS

No dividend was paid or declared by the Target Company since its incorporation, nor has any dividend been proposed since the end of the Relevant Period.

16. PROPERTY, PLANT AND EQUIPMENT

THE TARGET GROUP	Buildings	Motor vehicles	Office equipment	Medical equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
Acquired on acquisition of a subsidiary *(Note 30)*	159,341	1,473	1,985	37,389	3,430	203,618
Additions	–	276	343	3,027	545	4,191
Transfers	3,793	–	–	–	(3,793)	–
Disposals	–	(211)	(5)	(401)	–	(617)
At 31 December 2014	163,134	1,538	2,323	40,015	182	207,192
Additions	183	–	571	12,211	4,669	17,634
Disposals	–	(376)	–	(11)	–	(387)
At 31 December 2015	163,317	1,162	2,894	52,215	4,851	224,439
Additions	–	289	854	11,842	18,263	31,248
Disposals	–	–	(21)	(2,690)	–	(2,711)
At 31 December 2016	163,317	1,451	3,727	61,367	23,114	252,976
DEPRECIATION						
Provided for the period	3,699	111	517	6,774	–	11,101
Disposals	–	(200)	(2)	(137)	–	(339)
At 31 December 2014	3,699	(89)	515	6,637	–	10,762
Provided for the year	6,845	210	876	12,902	–	20,833
Disposals	–	(357)	–	(9)	–	(366)
At 31 December 2015	10,544	(236)	1,391	19,530	–	31,229
Provided for the year	6,795	251	692	13,884	–	21,622
Disposals	–	–	(20)	(2,473)	–	(2,493)
At 31 December 2016	17,339	15	2,063	30,941	–	50,358
CARRYING VALUE						
At 31 December 2014	159,435	1,627	1,808	33,378	182	196,430
At 31 December 2015	152,773	1,398	1,503	32,685	4,851	193,210
At 31 December 2016	145,978	1,436	1,664	30,426	23,114	202,618

The above items of property, plant and equipment, other than construction in progress are depreciated over their estimated useful lives, after taking into account their estimated residual value, on a straight-line basis, as follows:

Buildings	30 years
Motor vehicles	5 years
Office equipment	3 – 5 years
Medical equipment	10 years

17. PREPAID LEASE PAYMENT

Movements in the Target Group's prepaid lease prepayments, which represent land use rights with the lease terms of 42 years in the PRC, during the Relevant Period are analysed as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
THE TARGET GROUP			
CARRYING AMOUNT			
At the beginning of the reporting period	–	37,175	36,292
Acquired on acquisition of a subsidiary *(Note 30)*	37,690	–	–
Released to profit or loss	(515)	(883)	(883)
At the end of the reporting period	37,175	36,292	35,409
Analysed for reporting purpose as:			
– Non-current portion	36,292	35,409	34,526
– Current portion	883	883	883
	37,175	36,292	35,409

18. INTANGIBLE ASSETS

THE TARGET GROUP	Premium on land use right *RMB'000*	Software *RMB'000*	Total *RMB'000*
COST			
Acquired on acquisition of a subsidiary *(Note 30)*	4,498	569	5,067
At 31 December 2014	4,498	569	5,067
Additions	–	80	80
At 31 December 2015	4,498	649	5,147
Additions	–	512	512
At 31 December 2016	4,498	1,161	5,659
AMORTISATION			
Provided for the period	55	197	252
At 31 December 2014	55	197	252
Provided for the period	110	393	503
At 31 December 2015	165	590	755
Provided for the period	110	80	190
At 31 December 2016	275	670	945
CARRYING VALUE			
At 31 December 2014	4,443	372	4,815
At 31 December 2015	4,333	59	4,392
At 31 December 2016	4,223	491	4,714

The above items of intangible assets are amortised on a straight-line basis as follows:

Software	5 – 10 years
Premium on land use right	42 years

19. GOODWILL

THE TARGET GROUP	*RMB'000*
COST	
Arising on acquisition of a subsidiary *(Note 30)* and as at 31 December 2014, 2015 and 2016	14,709

At the end of each reporting period, the carrying value of goodwill mainly represents goodwill arising from the acquisition of Yongding Hospital. For the purpose of impairment testing, the carrying amounts of goodwill has been allocated to the CGU comprising Yongding Hospital.

For the purpose of impairment testing, the Target Group prepares cash flow projection covering a 5- year period. The recoverable amounts is determined based on value in use calculations. That calculation uses cash flow projections based on financial budgets approved by management of Yongding Hospital covering a five-year period and discount rate of 9.42%, 11.24% and 10.70% for the 2014, 2015 and 2016, respectively. The cash flows of the CGU beyond the five-year period are extrapolated using a steady growth rate of 1% for all years under review. The growth rates are based on the relevant industry forecasts and do not exceed the industry average long-term growth rates.

The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the goodwill. Based on review of the recoverable amounts, the Directors are of the view that no impairment on goodwill was required during Relevant Period.

20. DEFERRED TAX ASSETS (LIABILITIES)

	At 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets	242	231	838
Deferred tax liabilities	(18,863)	(17,134)	(18,227)
	(18,621)	(16,903)	(17,389)

The following are the major deferred tax assets and liabilities recognised and movements thereon during the Relevant Period:

	Allowance for doubtful debts	**Undistributed retained profits of the PRC**	**Property, plant and equipment**	**Intangible assets**	**Others**	**Total**
	RMB'000	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Arise on acquisition of a subsidiary *(Note 30)*	–	–	(14,919)	(1,260)	(1,594)	(17,773)
Charge to profit or loss	–	(2,559)	–	–	–	(2,559)
Credit to profit or loss	242	–	637	61	771	1,711
At 31 December 2014	242	(2,559)	(14,282)	(1,199)	(823)	(18,621)
Charge to profit or loss	(11)	(3,046)	–	–	–	(3,057)
Credit to profit or loss	–	2,636	1,235	122	782	4,775
At 31 December 2015	231	(2,969)	(13,047)	(1,077)	(41)	(16,903)
Charge to profit or loss	–	(4,976)	–	–	–	(4,976)
Credit to profit or loss	607	2,680	1,154	28	21	4,490
At 31 December 2016	838	(5,265)	(11,893)	(1,049)	(20)	(17,389)

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned by the group entities registered in the PRC. The amount has been provided based on the amount of undistributed retained profits of certain PRC entity attributable to non-PRC shareholder at a withholding tax rate of 10% as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

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

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

	At 31 December		
THE TARGET GROUP	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
2019	99	99	99
2020	–	583	583
2021	–	–	511
	99	682	1,193

21. INVENTORIES

	At 31 December		
THE TARGET GROUP	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Pharmaceuticals	8,204	9,763	12,275
Medical consumables	4,521	1,433	1,335
	12,725	11,196	13,610

22. TRADE RECEIVABLES

	At 31 December		
THE TARGET GROUP	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	24,386	27,304	36,097
Less: Allowance for impairment	(968)	(924)	(3,350)
	23,418	26,380	32,747

The Target Group allows a credit period of approximately 30 to 90 days for the general healthcare service provided to the patients which are due from medical insurance program providers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date:

THE TARGET GROUP	At 31 December 2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Less than 30 days	15,609	18,315	21,760
30 to 90 days	7,809	8,065	10,987
	23,418	26,380	32,747

As at 31 December 2014, 2015 and 2016, all trade receivables disclosed above are not past due nor impaired.

The Target Group has provided fully for all receivables from in patients discharged from the hospital over 30 days because based on historical experience such receivables are generally not recoverable.

Movements in the allowance for doubtful debts	*RMB'000*
THE TARGET GROUP	
As at 18 February 2014	–
Impairment losses on trade receivables	968
As at 31 December 2014	968
Impairment reversal on trade receivables	(44)
As at 31 December 2015	924
Impairment losses on trade receivables	2,426
As at 31 December 2016	3,350

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

23. OTHER NON-CURRENT ASSETS / OTHER RECEIVABLES AND PREPAYMENTS

THE TARGET GROUP	At 31 December 2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Other non-current assets			
Prepaid trademark license *(Note)*	–	26,793	59,372
Less: current portion included in other receivables and prepayments	–	(1,200)	(1,200)
	–	25,593	58,172
Other receivables and prepayments			
Prepaid trademark license – current portion	–	1,200	1,200
Prepaid other expenses	151	23	11
Other receivable	12,783	12,313	3,116
	12,934	13,536	4,327

Note: On 8 May 2014, Etern Healthcare (HK) Limited ("**Etern Healthcare**"), a subsidiary of the Target Company, entered into a trademark license agreement with Amstar Global Ltd., a private company incorporated in the BVI and independent to the Target Group. According to the agreement, the trademark license was granted to Etern Healthcare and its affiliates from 8 May 2014 to 7 May 2064 at a cash consideration of an aggregate amount of US$9,758,000. The trademark license was sub-licensed to and used by Yongding Hospital with effective from 8 May 2014.

US$4,700,000 (approximately RMB28,793,000) and US$5,058,000 (approximately RMB33,779,000) were paid by the Target Group during the year ended 31 December 2015 and 2016, respectively. Trademark license expenses of RMB800,000, RMB1,200,000 and RMB1,200,000 have been recognised in the profit or loss during the year ended 31 December 2014, 2015 and 2016, respectively (Note 11).

24. AFS FINANCIAL ASSETS

THE TARGET GROUP

On 30 December 2015, the Target Group purchased wealth management products from a commercial bank, which invests in a portfolio of treasury bonds, central bank bills, bond funds and the principal amount is unguaranteed, the Target Group redeemed the products at the date specified in the contracts. As at 31 December 2015, the fair value of the products was approximately RMB15,000,000. The Target Group has redeemed the products on 4 January 2016. During the Relevant Period, the Target Group invested and redeemed similar wealth management products, gain on redemption was recognised and included in other gain and loss as set out in Note 9.

25. BANK BALANCES AND CASH

THE TARGET GROUP	At 31 December 2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Bank balances and cash denominated in:			
RMB	60,838	77,309	128,054
US$	3,312	327	341
	64,150	77,636	128,395

The Target Group's bank balances and cash comprise cash held by the Target Group which carry interest at prevailing deposit interest rate is 0.35% per annum at 31 December 2014, 2015 and interest rate is 0.3% per annum at 31 December 2016.

THE TARGET COMPANY	At 31 December 2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Bank balances and cash denominated in US$	122	113	118

26. TRADE PAYABLES

Trade payables are non-interest bearing and are normally granted on 90 days credit term. An aged analysis of the Target Group's trade payables, as at the end of each of the reporting period, based on the invoice date, is as follows:

THE TARGET GROUP	At 31 December 2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	21,452	29,128	39,579
91 to 180 days	2,741	4,522	6,220
180 to 365 days	182	632	1,245
1 to 2 years	104	86	191
	24,479	34,368	47,235

27. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

THE TARGET GROUP	At 31 December 2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Management/consultancy fees and brand royalties payable *(Note 11)*	8,055	4,182	1,000
Accrued expenses	5,800	7,113	9,172
Accrued payroll and welfare	7,432	8,212	10,604
Advances from patients	125	362	330
Dividend payable to a non-controlling shareholder of a subsidiary	600	620	1,100
Interest payables	276	248	171
Payable for purchase of property, plant and equipment	2,336	1,620	1,600
Others	994	1,563	1,963
	25,618	23,920	25,940

28. BANK BORROWINGS

THE TARGET GROUP	At 31 December 2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Secured bank borrowings repayable:			
– Within one year	135,000	135,000	125,000

All bank borrowings are denominated in RMB, the functional currency of the respective group entity.

These bank borrowings are guaranteed by 永鼎集團有限公司 ("**Yongding Group**") and Mr. Mo Lindi, the Chairman of Yongding Hospital, Yongding Group is a private company with limited liability incorporated in the PRC and the former ultimate holding company of Yongding Hospital. All secured bank borrowings are repayable within one year from the end of each reporting period.

THE TARGET GROUP	From 18 February to 31 December 2014	Year ended 31 December 2015	2016
	%	%	%
Range of fixed interest rates	6.60 – 7.20	5.62 – 6.42	4.57

29. SHARE CAPITAL

THE TARGET COMPANY AND THE TARGET GROUP	Number of shares	Share Capital *US$'000*	Share Capital *RMB'000* (equivalent)
Shares of US$1 each			
Authorised	50,000	50	N/A
Issued and fully paid ordinary shares	1,001	1	6

In 2014, the Target Company issued 1,001 ordinary shares with par value of United States Dollar ("**US$**") 1 per share at a subscription price of US$26,980,000 (equivalent to RMB165,886,000) to provide initial capital to the Target Company. The excess to the share capital amounting to US$26,978,999 (equivalent to RMB165,880,000) was credited to share premium accordingly.

30. ACQUISITION OF A SUBSIDIARY

On 28 May 2014, the Target Group acquired 100% of the equity interest in Yongding Healthcare at a cash consideration of RMB160,000,000 from Yongding Group. Yongding Healthcare owns 98% of the equity interest in Yongding Hospital which is a privately-owned Class II general hospital in the PRC providing extensive medical services.

Financial information of the acquired subsidiaries

Assets and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	203,618
Prepaid lease payments	37,690
Intangible assets	5,067
Inventories	15,855
Trade receivables	25,602
Other receivables and prepayments	32,022
Bank balances and cash	14,548
Trade payables	(23,712)
Other payables, deposits received and accruals	(20,038)
Bank borrowings	(115,000)
Income tax payable	(9,755)
Deferred tax liabilities	(17,773)
Fair value of net assets acquired	148,124

The fair value of trade and other receivables at the date of acquisition amounted to RMB57,624,000, which approximate to the gross contractual amount of those trade and other receivables at the date of acquisition.

Goodwill arising on acquisition	*RMB'000*
Total consideration	160,000
Add: Non-controlling interest (2% in Yongding Hospital)	2,833
Less: Fair value of net assets acquired	(148,124)
Goodwill arising on the acquisition	14,709

Total consideration satisfied by:

	RMB'000
Cash	160,000

Goodwill arising on the acquisition of Yongding Healthcare is attributable to its anticipated profitability in potential markets expansion and the anticipated future operating synergies from the combination.

No goodwill arising on this acquisition is expected to be deductible for tax purposes.

Acquisition-related costs of RMB2,170,000 have been excluded from the cost of acquisition and have been recognised as an expense within other expenses line item in the consolidated statement of profit or loss and other comprehensive income for the period ended 31 December 2014.

Net cash outflow on acquisitions	*RMB'000*
Cash consideration paid	160,000
Less: Cash and cash equivalents acquired	(14,548)
	145,452

Impact of acquisition on the results of the Target Group

Included in the profit for the period ended 31 December 2014 is RMB10,894,000 of profit attributable to the additional business generated by Yongding Healthcare. Revenue for the period ended 31 December 2014 includes RMB168,054,000 generated from Yongding Healthcare.

Had the acquisition of Yongding Healthcare has been effected on 1 January 2014, the revenue of the Target Group for the period ended 31 December 2014 would have been approximately RMB276,857,000, and the profit for the period ended 31 December 2014 would have been approximately RMB14,458,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Target Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Target Group, had Yongding Healthcare been acquired on 1 January 2014, the Directors have calculated depreciation and amortisation of property, plant and equipment, prepaid lease payment and intangible asset acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

31. COMMITMENTS

Capital expenditures contracted for but not provided in the Historical Financial Information of the Target Group for the Relevant Period are as follows:

	At 31 December		
THE TARGET GROUP	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
In respect of acquisition of property, plant and equipment	728	37,977	37,449

In addition, the Target Group had commitments in respect of trademark license agreement, details of which are set out in Note 23, amounted to US$9,758,000 (approximately RMB59,712,000) and US$5,058,000 (approximately RMB30,989,000) as at 31 December 2014 and 2015, respectively.

At the end of each reporting period, the Target Company did not have any capital commitment.

Operating lease commitments

The Target Group leases various office buildings under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	At 31 December		
THE TARGET GROUP	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	150	182	250
In the second to fifth year inclusive	932	1,000	1,000
Over five years	646	396	146
	1,728	1,578	1,396

At the end of each reporting period, the Target Company did not have any operating lease commitment.

32. RETIREMENT BENEFIT SCHEME

	From 18 February to 31 December	Year ended 31 December	
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Retirement benefit contribution made during the period	1,627	3,792	4,086

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Target Group are required to contribute a certain percentage of the payroll of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. The only obligation of the Target Group with respect to these retirement benefits schemes is to make the required contributions under the respective schemes.

33. RELATED PARTY TRANSACTIONS

The following parties are identified as related parties to the Target Group and the respective relationships are set out below:

Name of related parties	Relationship with the Target Group
Ascendent Healthcare	Immediate holding company of the Target Company
滁州嘉美印鐵制罐有限公司 (“**Chuzhou Jiamei**”)	A company under significant influence of Ascendent Capital
雅禮投資諮詢(上海)有限公司 (“**Yali Investment**”)	A company controlled by Mr. Meng Liang and Mr. Zhang Yi Kevin

(a) As at 31 December 2014, the amount due from Chuzhou Jiamei of RMB20,000,000 is an unsecured loan with a fixed interest rate of 13% per annum and fully received on 26 May 2015. Interest income of approximately RMB210,000 and RMB1,090,000 was recognised in the profit or loss during the year ended 31 December 2014 and 2015, respectively.

(b) As at 31 December 2016, the amount due from Yali Investment of RMB198,000 is unsecured, non-interest bearing and repayable on demand.

(c) As at 31 December 2016, the amount due to the immediate holding company amounting to USD1,139,000 (equivalent to approximately RMB7,901,000) are unsecured, non-interest bearing and repayable on demand.

(d) Compensation of key management personnel

Key management personnel emoluments during the Relevant Period are as follows:

	From 18 February to 31 December	Year ended 31 December	
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	535	1,096	1,115
Retirement benefit contributions	–	–	15
	535	1,096	1,130

During the period/year ended 31 December 2014 and 2015, the Target Group also paid management fees of RMB4,648,000 and RMB3,398,000 to Renji Hospital for its provision of key management personal services to the Target Group, details are set out in Note 11.

34. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December		
THE TARGET GROUP	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Loans and receivables (including bank balances and cash)	120,351	116,329	164,456
AFS financial assets	–	15,000	–
Financial liabilities, at amortised cost	184,972	192,926	205,746

Capital risk management

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged in the Relevant Period.

The capital structure of the Target Group consists of debt, which is the bank borrowings disclosed in Note 28, and equity attributable to owners of the Target Company, comprising issued share capital, share premium and retained profits.

The Directors review the capital structure on an annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on the results of the review of the Directors, the Target Group will balance its overall capital structure through the payment of dividends, raising new share capital as well as the issue of new debt or the redemption of existing debt.

Financial risk management objectives and policies

The Target Group's major financial instruments include AFS financial assets, trade receivables, other receivables, amount due from related parties, bank balances and cash, trade payables, other payables, dividend payable, amount due to the immediate holding company and bank borrowings. Details of these financial instruments are set out in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Target Group's financial instruments are credit risk, interest rate risk, currency risk and liquidity risk. The Target Group's overall financial risk management objectives and policies remain unchanged in the Relevant Period. The Directors review and agree policies for managing each of these risks and they are summarised below.

Currency risk

The Target Group has bank balances and amount due to the immediate holding company which are denominated in foreign currencies and consequently it has foreign exchange risk exposure resulting from translation of amount denominated in foreign currencies. The Target Group does not hedge its exposure in this respect but monitor these closely.

The carrying amounts of the Target Group's foreign currency denominated monetary assets and monetary liabilities as at each of the year ends of the Relevant Period are as follows:

	Liabilities			Assets		
	2014	2015	2016	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
US$	–	–	7,901	3,312	327	341

The following table details the Target Group's sensitivity to a 5% increase and decrease in RMB against US$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the Directors' assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at year end for a 5% change in foreign currency rates. A negative number below indicates a decrease in post-tax profit where RMB weakens 5% against the US$. For a 5% strengthening of RMB against the relevant currency, there could be an equal and opposite impact on the profit for the period, and the amounts below would be positive.

	From 18 February to 31 December	Year ended 31 December	
	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
US$	166	16	(378)

Interest rate risk

The Target Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowing disclosed in Note 28. The Target Group currently does not use any derivative contracts to hedge its exposure to changes in fair values of the bank borrowings. However, management will consider hedging significant interest rate exposure should the need arise.

The Target Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Target Group cash flow interest rate risk on financial assets is mainly concentrated on the fluctuation of interest rate to be announced by the People's Bank of China earned from the Target Group's deposits in banks.

Credit risk

The Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

The Target Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the Target Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual debt at each of the year ends of the Relevant Period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Target Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because of the concentration of credit risk on liquid funds which are deposited with several banks of high credit ratings. Meanwhile, the Target Group has concentration of credit risk because 78%, 83% and 89% as at 31 December 2014, 2015 and 2016 of the trade receivables was due from 蘇州市吳江區社會保險基金管理中心 which is a government functional department with good reputation. Other than the above, the Target Group does not have significant concentration of credit risk.

Liquidity risk

To manage the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the operations of the Target Group and mitigate the effects of fluctuations in cash flows. The Target Group expects to fund its future cash flow needs through internally generated cash flows from operations, bank borrowings, as well as financing through owners.

The following tables detail the remaining contractual maturity of the Target Group for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at each of the year ends of the Relevant Period. The amounts included below for non-derivative variable rate financial liabilities are subject to change if change in interest rates differ to those estimates of interest rates determined at each of the year ends of the Relevant Period.

At 31 December 2014	Weighted average effective interest rate	On demand and within 3 months	3 months to 6 months	6 months to 1 year	1 years to 2 years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	24,479	–	–	–	24,479	24,479
Other payables	–	22,917	808	1,768	–	25,493	25,493
Bank borrowings	6.70	2,262	86,336	51,329	–	139,927	135,000
Amount due to holding company		–	–	–	–	–	–
		49,658	87,144	53,097	–	189,899	184,972

At 31 December 2015	Weighted average effective interest rate	On demand and within 3 months	3 months to 6 months	6 months to 1 year	1 years to 2 years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	34,368	–	–	–	34,368	34,368
Other payables	–	20,251	1,008	2,299	–	23,558	23,558
Bank borrowings	6.01	86,900	50,191	–	–	137,091	135,000
Amount due to holding company		–	–	–	–	–	–
		141,519	51,199	2,299	–	195,017	192,926

At 31 December 2016	Weighted average effective interest rate	On demand and within 3 months	3 months to 6 months	6 months to 1 year	1 years to 2 years	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	47,235	–	–	–	47,235	47,235
Other payables	–	21,511	1,125	2,974	–	25,610	25,610
Bank borrowings	4.57	56,407	40,414	30,229	–	127,050	125,000
Amount due to holding company		–	7,901	–	–	7,901	7,901
		125,153	49,440	33,203	–	207,796	205,746

Fair values measurement of financial instruments

Some of the Target Group's financial assets are measured at fair value at the end of each reporting period.

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value as at 31 December			Fair value hierarchy	Valuation technique and key input
	2014	**2015**	**2016**		
	RMB	*RMB*	*RMB*		
Financial assets					
Unlisted wealth management product estimated	–	15,000	–	Level 2	Discounted cash flow future cash flows are based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

35. MOVEMENTS OF THE TARGET COMPANY'S RESERVES

	Share premium	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*
Issue of shares	165,880	–	165,880
Loss and total comprehensive expense for the year	–	–	–
At 31 December 2014	165,880	–	165,880
Loss and total comprehensive expense for the year	–	(9)	(9)
At 31 December 2015	165,880	(9)	165,871
Profit and total comprehensive income for the year	–	5	5
At 31 December 2016	165,880	(4)	165,876

36. INTERESTS IN A SUBSIDIARY

	At 31 December		
THE TARGET GROUP	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Deemed capital contribution	165,764	165,764	165,764

During the Relevant Period and as at the date of this report, the Target Company has equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Target Group as at 31 December 2014	2015	2016	The date of this report	Principal activities
			%	%	%	%	
Directly held:							
Etern Healthcare *(Note a)*	Hong Kong 28 February2014	One ordinary share HK$1	100	100	100	100	Investment holding
Indirectly held:							
Yongding Healthcare *(Note b)*	the PRC 10 February 2014	Registered Capital RMB80,000,000	100	100	100	100	Medical healthcare management and investment holding
Yongding Hospital *(Notes b and c)*	the PRC 22 May 2014	Registered Capital RMB75,000,000	98	98	98	98	Provision of general hospital services and sales of pharmaceutical

All subsidiaries of the Target Group are limited liability companies and have adopted 31 December as their financial year end date.

Notes:

(a) The statutory financial statements of Etern Healthcare for the year ended 31 December 2014, 2015 and 2016 were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by HKICPA and were audited by C. C. Ho & Company, certified public accountants registered in Hong Kong.

(b) The statutory financial statements of Yongding Healthcare and Yongding Hospital for the year ended 31 December 2014, 2015 and 2016 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by BDO China Shu Lun Pan Certified Public Accountants LLP, certified public accountants registered in the PRC.

(c) Yongding Hospital was formerly registered and operated as a non-profitmaking entity. On 22 May 2014, Yongding Hospital completed its business registration change to a profitmaking company with limited liability at the State Administration of Industry and Commerce of the PRC.

(d) No statutory audited financial statements of the Target Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

37. SUBSEQUENT EVENTS

On 30 March 2017, Ascendent Healthcare and China Automation Group Limited entered into the Sale and Purchase Agreement (as amended by the supplemental agreement to the Sale and Purchase Agreement dated 23 June 2017) pursuant to which, China Automation Group Limited agreed to acquire 60% of total issued share capital of the Target Company. Upon Completion, the Target Company will become a subsidiary of China Automation Group Limited.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2016.

2. MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

(1) Financial Review

Analysis of the results for the period from 18 February 2014 (date of incorporation of the Target Company) to 31 December 2014 (the "period")

It should be noted that the acquisition of Hospital Co, which is the only cash-generating business within the Target Group, by the Target Group was only completed by end of May 2014. As such, the financials for the period only reflected the business operations of Hospital Co for the period from 1 June to 31 December 2014.

Revenue

Revenue of the Target Group for the period ended 31 December 2014 amounted to RMB168.1 million, of which revenue generated from provision of healthcare services and sales of pharmaceuticals amounted to RMB95.5 million and RMB72.6 million respectively.

Gross profit

Gross profit for the period ended 31 December 2014 was RMB44.3 million with the gross profit margin of 26.4% of the total revenue.

Other income

For the period ended 31 December 2014, other income amounted to RMB2.2 million, majority of which was related to government grant, which was to reimburse the costs incurred by Hospital Co for undertaking certain public health projects.

Other gains and losses

For the period ended 31 December 2014, other losses amounted to RMB0.9 million, primarily related to the impairment losses on trade receivables but partly offset by the gain on redemption of wealth management products.

Administrative expenses

Administrative expenses for the period ended 31 December 2014 were RMB22.2 million, mainly comprising salaries and welfare, external services expenses, hospital management service fees and depreciation and amortisation.

Finance costs

For the period 31 December 2014, finance costs amounted to RMB5.1 million, all of which were related to interest on bank borrowings.

Income tax expense

Income tax expense for the period ended 31 December 2014 amounted to RMB7.7 million with the effective tax rate at 48.1%.

Profit for the period

As a result of the foregoing, the Target Group recorded net profit of RMB8.3 million for the period ended 31 December 2014 with the net profit margin at 4.9%.

Comparison between the results for the period ended 31 December 2014 and the year ended 31 December 2015

It should be taken into account when reading the following analysis of comparison that differences may be caused by the fact that the results for the period ended 31 December 2014 were only made up of 7 months from 1 June 2014 to 31 December 2014 (as stated above), whereas the results for the year ended 31 December 2015 were made up of a full year.

Revenue

For the year ended 31 December 2015, revenue significantly increased by 81.6% to RMB305.2 million (2014: RMB168.1 million), as compared with that of the previous period. The increase in revenue was resulted from both the increase in revenue generated from provision of healthcare services (by 79.2% to RMB171.1 million) and increase in revenue generated from sales of pharmaceuticals (by 84.7% to RMB134.1 million) respectively.

Gross profit

Gross profit for the year ended 31 December 2015 was RMB78.2 million, representing an increase of 76.5% over that of the previous period. The gross profit margin marginally declined by 0.8% to 25.6%.

Other income

For the year ended 31 December 2015, other income amounted increased by RMB2.3 million to RMB4.5 million primarily due to the increase in government grant as well as interest income on loan receivables from a related company.

Other gains and losses

For the year ended 31 December 2015, other losses amounted to RMB0.3 million (2014: other losses of RMB0.9 million). The turnaround was primarily due to the gain on redemption of wealth management products.

Administrative expenses

Administrative expenses for the year ended 31 December 2015 were RMB33.3 million, an increase of RMB11.1 million when compared with that of the previous period. Such increase was mainly attributable to the increased staff costs in order to cope with the business expansion.

Finance costs

For the year ended 31 December 2015, finance costs increased by RMB3.3 million to RMB8.4 million, due to an increase in bank borrowings.

Income tax expenses

Income tax expenses increased by RMB6.5 million to RMB14.2 million for the year ended 31 December 2015. The effective tax rate was decreased from 48.1% to 35.1%.

Profit for the year

As a result of the foregoing, the Target Group recorded net profit of RMB26.3 million for the year ended 31 December 2015, representing an increase of RMB18.0 million or 216.9% when compared with that of the previous period.

Net profit margin of the Target Group increased from 4.9% for the period ended 31 December 2014 to 8.6% for the year ended 31 December 2015.

Comparison between the results for the year ended 31 December 2015 and the year ended 31 December 2016.

Revenue

For the year ended 31 December 2016, revenue increased by 20.7% to RMB368.5 million (2015: RMB305.2 million). The increase in revenue was resulted from both the increase in revenue generated from provision of healthcare services (by 21.5% to RMB207.9 million) and increase in revenue generated from sales of pharmaceuticals (by 19.7% to RMB160.5 million) respectively.

Gross profit

Gross profit for the year ended 31 December 2016 was RMB114.3 million, representing an increase of RMB36.1 million or 46.2% of the total revenue over that of the previous year. The gross profit margin for the year ended 31 December 2016 was increased from 25.6% to 31.0% due to i) lower external service expenses, including a decrease in brand royalties by RMB2.1 million; ii) more efficient inventory management of pharmaceuticals and medical disposables; and iii) greater economies of scale.

Other income

For the year ended 31 December 2016, other income decreased by RMB0.8 million to RMB3.7 million. This was mainly attributable to the fact that the loan receivables of a related company was fully received in May 2015 and therefore no more interest income recorded in 2016.

Other gains and losses

For the year ended 31 December 2016, other losses amounted to RMB2.2 million (2015: RMB0.3 million), the increased losses was primarily due to the impairment losses of RMB2.4 million on trade receivables in 2016.

Administrative expenses

Administrative expenses for the year ended 31 December 2016 decreased by 6.9% or RMB2.3 million to RMB31.0 million due to i) lower external service expenses, including a decrease in hospital management and consultancy fees from RMB3.9 million in 2015 to RMB1.0 million in 2016; and ii) implementation of budgetary planning and control as well as cost control measures.

Income tax expense

Income tax expenses increased by RMB11.3 million to RMB25.5 million for the year ended 31 December 2016. The effective tax rate was decreased from 35.1% to 32.5%.

Profit for the year

As a result of the foregoing, net profit of the Target Group was RMB53.0 million for the year ended 31 December 2016, representing an increase of RMB26.7 million or 101.5% when compared with that of the previous year. Net profit margin of the Target Group increased from 8.6% for the year ended 31 December 2015 to 14.4% for the year ended 31 December 2016.

(2) Liquidity and financial resources

The Target Group's liquidity position remains strong.

Net cash from operating activities of the Target Group increased from RMB35.2 million for the period ended 31 December 2014 to RMB61.0 million for the year ended 31 December 2015. This was mainly attributable to: (i) the increase in profit before taxation by RMB24.5 million for the year ended 31 December 2015; and (ii) increase in trade payables.

For the year ended 31 December 2016, net cash from operating activities of the Target Group amounted to RMB99.1 million, representing an increase of RMB38.4 million from previous year due to: (i) the increase in profit before taxation by RMB38.0 million for the year ended 31 December 2016; and (ii) decrease in other receivables.

Net cash used in investing activities for the year ended 31 December 2015 decreased by RMB114.3 million to RMB37.8 million primarily due to the fact that there was an acquisition of 100% equity interest in Yongding Healthcare at a cash consideration of RMB145.5 million in 2014 but no such significant acquisition in 2015.

Net cash used in investing activities for the year ended 31 December 2016 increased by RMB1.4 million to RMB39.2 million mainly due to increased purchases of property, plant and equipment for upgrading the hospital facilities in 2016.

Net cash from financing activities for the period ended 31 December 2014 amounted to RMB181.1 million whereas net cash used in financing activities for the year ended 31 December 2015 amounted to RMB9.0 million due to the issue of new shares for the new shareholder amounted to RMB165.9 million in 2014.

For the year ended 31 December 2016, net cash used in financing activities was recorded at RMB9.6 million (2015: RMB9.0 million).

As at 31 December 2015, cash and bank balances amounted to RMB77.6 million (2014: RMB64.2 million). As at 31 December 2016, cash and bank balances increased by RMB50.8 million to RMB128.4 million.

(3) Capital structure

During the period from 18 February 2014 to 31 December 2014 and the two years ended 31 December 2015 and 2016, there was no material change in the Target Group's capital structure. The Target Group generally finances its operations and investing activities by bank loan and shareholder's fund.

(4) Capital expenditure

The Target Group invested approximately RMB5.9 million, RMB16.3 million and RMB31.0 million in capital expenditure for the period from 18 February to 31 December 2014 and the two years ended 31 December 2015 and 2016 respectively.

(5) Segmental information

The Target Group currently operates in sales of pharmaceuticals and provision of healthcare services which is considered to be a single operation. As such, there is no segment information available for the period from 18 February to 31 December 2014 and the two years ended 31 December 2015 and 2016.

(6) Employee information

As at 31 December 2014, 2015 and 2016, the Target Group had 644, 681 and 693 employees respectively. The total staff cost paid for the period from 18 February 2014 to 31 December 2014 and the two years ended 31 December 2015 and 2016 were approximately RMB37.8 million, RMB69.9 million and RMB79.0 million respectively. The Target Group remunerated its employees based on performance, experience and prevailing industry practice.

(7) Charges on assets

As at 31 December 2014, 2015 and 2016, the Target Group did not have any charges on assets.

(8) Future plans for material investments or capital assets

The Target Group commenced the Phase II Construction Project in September 2015, which is targeted to be completed by late 2017.

As of December 31, 2016, the total outstanding payment for the Phase II Construction Project is approximately RMB39.0 million, majority of which shall be payable by the Hospital Co upon Completion.

(9) Foreign currency risk

As at 31 December 2014, 2015 and 2016, the Target Group did not have any significant exposures to currency risk.

(10) Contingent liabilities

As at 31 December 2014, 2015 and 2016, the Target Group did not have any significant contingent liabilities.

(11) Gearing ratio

As at 31 December 2014, 2015 and 2016, the net gearing (total borrowings less cash over total equity) ratio were 40.2%, 28.4% and -1.3% (net cash position). The net gearing ratio had been coming down over the years. This was mainly attributable to the prudent financial management policies adopted by the Target Group.

The information set out in this appendix does not form part of the Accountants' Report of Etern Group Ltd. from Deloitte Touche Tohmatsu, the Company's reporting accountants, as set out in "Appendix II - Financial Information of Target Group" and is included in this Circular for information only. The unaudited pro forma financial information should be read in conjunction with the Accountants' Report set out in "Appendix II – Financial Information of Target Group".

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying illustrative unaudited pro forma consolidated statement of assets and liabilities of the Group ("**Unaudited Pro Forma Financial Information**") has been prepared to illustrate the effect of the proposed acquisition (the "**Acquisition**") of 60% equity interest in Etern Group Ltd. (the "**Target Company**") (together with its subsidiaries collectively referred to as the "**Target Group**") (the Target Group together with the Group hereinafter referred to as the "**Enlarged Group**").

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company (the "**Directors**") based upon the audited consolidated statement of financial position of the Group as at 31 December 2016, which has been extracted from annual report of the Company for the year ended 31 December 2016 after making unaudited pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable as if the Acquisition has been completed on 31 December 2016.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules for illustrative purposes only, based on their judgments, estimations and assumptions, to provide information of the Group as if the Acquisition had been completed as at 31 December 2016. As it is prepared for illustration purpose only, because of its hypothetical nature, it does not purport to give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 31 December 2016 or at any future dates.

(I) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AS AT 31 DECEMBER 2016

		Pro forma adjustments		
	The Group	The Target Group	Other pro forma adjustments	Pro forma amounts of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	
Non-current assets				
Property, plant and equipment	883,918	202,618	24,877	1,111,413
Deposit for acquisition of property, plant and equipment	40,303	78		40,381
Prepaid lease payments – non-current portion	271,119	34,526		305,645
Intangible assets	69,273	4,714	17,845	91,832
Goodwill	8,890	14,709	618,079	641,678
Interests in associates	20,585	–		20,585
Pledged bank deposits	405	–		405
Deferred tax assets	66,486	838		67,324
Available-for-sale financial assets	41,170	–		41,170
Other non-current assets	–	58,172		58,172
	1,402,149	315,655		2,378,605
Current assets				
Prepaid lease payments – current portion	6,314	883		7,197
Inventories	481,724	13,610		495,334
Trade and bills receivables	1,420,321	32,747		1,453,068
Other receivables and prepayments	145,330	4,525		149,855
Pledged bank deposits	61,934	–		61,934
Bank balances and cash	168,538	128,395	(4,688)	292,245
	2,284,161	180,160		2,459,633
Assets classified as held for sale	50,487	–		50,487
	2,334,648	180,160		2,510,120

		Pro forma adjustments		
	The Group	**The Target Group**	**Other pro forma adjustments**	**Pro forma amounts of the Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	
Current liabilities				
Trade and bills payables	485,228	47,235		532,463
Other payables, deposits received and accruals	342,528	33,841		376,369
Dividend payable	6	–		6
Income tax payable	23,159	16,423		39,582
Bank borrowings – due within one year	333,803	125,000		458,803
	1,184,724	222,499		1,407,223
Liabilities directly associated with assets classified as held for sale	39,177	–		39,177
	1,223,901	222,499		1,446,400
Net current assets (liabilities)	1,110,747	(42,339)		1,063,720
Total assets less current liabilities	2,512,896	273,316		3,442,325
Non-current liabilities				
Deferred tax liabilities	16,640	18,227	10,681	45,548
Bank borrowings – due after one year	200,000	–		200,000
Guaranteed notes – due after one year	205,567	–		205,567
Corporate bonds	195,679	–		195,679
Convertible bond	–	–	796,241	796,241
Other non-current liabilities	382,339	1,115	(1,115)	382,339
	1,000,225	19,342		1,825,374
Net assets	1,512,671	253,974		1,616,951

(II) NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the annual report of the Group for the year ended 31 December 2016.

2. The adjustment represents historical carrying amounts of the Target Group as at 31 December 2016, which are extracted from the audited consolidated statement of financial position of the Target Group as at 31 December 2016 in the accountants' report of the Target Group as set out in Appendix II to this Circular.

3. The adjustments reflect the fair value adjustment to and the recognition of assets and liabilities of the Target Group assuming the Acquisition had taken place on 31 December 2016, as well as the recognition of the Convertible Bond to be issued by the Company as Consideration of the transaction. Pursuant to the terms of the Sale and Purchase Agreement, the Consideration of the Acquisition is fixed at RMB675,588,000.

   The identifiable assets and liabilities of the Target Group to be acquired by the Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the acquisition accounting in accordance with International Financial Reporting Standard 3 "Business Combinations" ("**IFRS 3**"). The calculation of the pro forma goodwill is as follows:

	Notes	**31 December 2016** *RMB'000*
Consideration: Fair value of the Convertible Bond	*(a)*	796,241
Less: Fair value of the identifiable net assets acquired	*(b)*	(272,421)
Add: Non-controlling interest (40% of fair value of the identifiable net assets acquired)		108,968
Pro forma goodwill arising on the Acquisition	*(c)*	632,788

(a) Pursuant to the Sale and Purchase Agreement, the Consideration will be satisfied by the issuance of the Convertible Bond which is convertible into new shares of the Company at an initial conversion price of RMB1.0640 per Conversion Share (subject to adjustments). Particulars of the Convertible Bond are set out in the section headed "The Convertible Bond" of "Letter from the Board" section of the Circular.

An analysis of the pro forma fair value of the Consideration assuming the Acquisition had taken place on 31 December 2016 is set out as follows:

	Face value	Fair value as at 31 December 2016
	RMB'000	*RMB'000*
The Convertible Bond	675,588	796,241

The Convertible Bond is designated as financial instrument at fair value through profit and loss, and will be measured at fair value on the actual Completion Date of the Acquisition considering both the fair values of the debt component and the conversion feature. The conversion option is a derivative as it will be settled other than by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments. Any transaction costs directly attributable to the issuance of the Convertible Bond are recognised immediately in profit or loss.

For the purpose of the Unaudited Pro Forma Financial Information, the fair value of the Convertible Bond as at 31 December 2016 is estimated by the Directors with reference to the valuation report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of surveyors who has professional qualifications and relevant experience. The fair value of the Convertible Bond comprises the fair value of the debt component of RMB204,270,000 and the conversion option derivative of RMB591,971,000 respectively as at 31 December 2016.

In the opinion of the Directors, the fair value of the Convertible Bond to be issued is subject to the changes upon actual Completion of the Acquisition and may be substantially different from its fair value used in preparing the Unaudited Pro Forma Financial Information, the amount of the Consideration for the Acquisition and, accordingly, the goodwill arising from the Acquisition upon actual Completion of the Acquisition will be different from the amounts presented above.

(b) For the purpose of the Unaudited Pro Forma Financial Information, the Directors had assessed whether there are material fair value adjustments of the assets and liabilities being acquired/assumed based on their knowledge of the business of the Target Group as well as the assistance from an independent professional valuer. Based on the currently available information, the Directors are of the opinion that the fair values of the Target Group's identifiable assets and liabilities as of the date of the Acquisition is assumed to approximate their respective carrying values as of 31 December 2016, save for the adjustments as follows:

	Notes	**31 December 2016** *RMB'000*
Audited net assets of the Target Group		253,974
Less: Goodwill previously recognised by the Target Group		(14,709)
Add: Other non-current liabilities	*(i)*	1,115
Fair value adjustments on:	*(ii)*	
– Property, plant and equipment		24,877
– Intangible assets – premium on land use right		17,845
– Deferred tax liabilities		(10,681)
Fair value of the identifiable net assets acquired		272,421

(i) The Target Group recognised deferred income relating to government subsidies in connection with expenses on medical aid as non-current liabilities in its consolidated statement of financial position. The deferred income will be recognised in the profit or loss and deducted from the relevant expenses when actually incurred by the Target Group. The Target Group does not have the obligation to deliver services or goods relating to those government grants and the deferred income does not meet the definition of a liability.

(ii) The above fair value adjustments as at 31 December 2016 have been determined with reference to an independent valuation report issued by Zhongtongcheng Assets Appraisal Company Limited, an independent firm of surveyors who has professional qualifications and relevant experience.

The total carrying amount of the property, plant and equipment of the Target Group is RMB202,618,000 as at 31 December 2016. The fair value of the property, plant and equipment of RMB227,495,000 is determined based on the replacement costs and applicable appraised newness rates of the related buildings and tangible equipment.

The total carrying amount of the land use right of the Target Group is RMB39,632,000 as at 31 December 2016, including the premium on land use right of RMB4,223,000 in intangible assets and RMB35,409,000 in prepaid lease payments, which comprises non-current portion and current portion of RMB34,526,000 and RMB883,000 respectively. The fair value of the land use right of RMB57,477,000 is determined based on the open market value of land use rights in Suzhou.

Deferred tax liabilities are calculated based on the 25% tax rate on the above fair value adjustments.

The Group will assess the fair value of the identifiable assets acquired and liabilities assumed of the Target Group at the actual Completion Date of the Acquisition. Accordingly, goodwill recognised will be subject to changes upon the actual Completion of the Acquisition.

(c) According to the Group's accounting policy, after initial recognition, the goodwill will be measured at cost less any accumulated impairment losses. The goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, impairment is determined by assessing the recoverable amount of the Group's cash generating units to which the goodwill relates. Where the recoverable amount of the cash generating units is less than the carrying amount of the units, an impairment loss will be recognised by reducing the carrying amount of any goodwill allocated to the units at first.

For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the management of the Group has conducted an assessment of impairment of the goodwill as at 31 December 2016 in accordance with International Accounting Standard 36 "Impairment of Assets" ("**IAS 36**"), which is consistent with the accounting policy of the Company. In accordance with the requirements of IAS 36, the Directors has assessed the impairment by considering whether the carrying amounts of goodwill plus the net identifiable assets of the underlying business of the Target Group exceed the recoverable amount of such underlying business as at 31 December 2016 as determined by a separate valuation. As the recoverable amount is above the aforesaid carrying amounts as at 31 December 2016, no impairment on goodwill or any assets is required for the purpose of the Unaudited Pro Forma Financial Information.

The Company will conduct an impairment assessment upon actual Completion of the Acquisition in accordance with IFRS 3 and also as at the end of each of the Company's reporting period in accordance with IAS 36 for the purpose of impairment testing on goodwill. The Company will adopt consistent accounting policies and carefully consider the basis of principal assumptions to assess the impairment of assets and goodwill of the Enlarged Group in the consolidated financial statements in the future.

The Directors would like to draw attention to the fact that goodwill arising on the Acquisition, if any, represents the excess of the fair value of the Consideration over the fair value of the identifiable assets and liabilities of the Target Group to be acquired by the Group, which in turn will be determined based on facts and circumstances at the Completion Date of the Acquisition when the Group obtains control over the Target Group. Accordingly, the figures presented above are subject to changes upon the actual Completion of the Acquisition. In addition, goodwill arising on the Acquisition, if any, will be assessed for impairment by comparing the recoverable amount of the Target Group with its carrying amount including goodwill on the date of assessment based on information available at the time. Due to these inherent uncertainties, goodwill, if any, may or may not be impaired depending on final assessment.

The unaudited pro forma adjustment in bank balances and cash represents the estimated acquisition-related costs (including service fees to financial advisers, legal counsels, reporting accountants, valuers and other professional expenses) of approximately RMB4,688,000 in total which are directly attributable to the Acquisition.

4. No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2016.

2. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF CHINA AUTOMATION GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Automation Group Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2016 and related notes as set out on pages III-1 to III-7 of the circular issued by the Company dated 23 June 2017 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page III-1 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 60% equity interest of Etern Group Ltd. by the Company on the Group's financial position as at 31 December 2016 as if the transaction had taken place at 31 December 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2016, on which an auditor's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 23 June 2017

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

Authorised and issued share capital of the Company as at the Latest Practicable Date:

	HK$
Authorised:	
3,000,000,000 Shares	30,000,000.00

	HK$
Issued and fully paid:	
1,026,263,729 Shares	10,262,637.29

Authorised and issued share capital of the Company upon full conversion of the Convertible Bond:

		HK$
Authorised		
3,000,000,000 Shares		30,000,000.00
Issued and fully paid:		
1,026,263,729 Shares	Shares in issue as at the Latest Practicable Date	10,262,637.29
634,951,127 Shares	Conversion Shares to be issued upon full conversion of the Convertible Bond	6,349,511.27
1,661,214,856 Shares	Shares in total	16,612,148.56

As it is expected that there will be no change in the issued share capital of the Company immediately after Completion as the Consideration will be settled by way of issuance of Convertible Bond and Conversion Shares will only be issued upon the holder(s) of the Convertible Bond exercising its or their conversion rights pursuant to the terms and conditions of the Convertible Bond.

3. DISCLOSURE OF INTERESTS

Directors and chief executive's interests in shares, underlying shares and debentures of the Company or any of its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in the Listing Rules were as follows:

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

Save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders

As at the Latest Practicable Date, to the best knowledge of the Directors, the following persons, other than the Directors and chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

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

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

Notes:

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

2. Pursuant to the Consortium Agreement dated 23 June 2016, as supplemented by a side letter dated 14 March 2017, between AACL, Araco and Brightex Enterprises Limited ("**Brightex**"), AACL has the right to require Araco to transfer shares of the Company at HK1.20 to AACL to discharge some or all of the amount then owing by Araco to AACL pursuant to the Facility Agreement dated 23 June 2016 entered into between AACL (as lender) and Araco (as borrower) and/or to purchase some or all of the shares of the Company at HK$1.20 then held by Araco on or before 15 September 2017 (or such other date AACL, Araco and Brightex may agree in

writing) in order to achieve the agreed allocation of shares between Araco and AACL (i.e. the Exchange Right). The Exchange Right will entitle AACL to require Araco to transfer and/or to purchase 248,235,132 shares of the Company held by Araco. AACL is deemed under sections 317 and 318 of the SFO to be interested in 763,931,296 shares of the Company held by Araco (including those 248,235,132 shares of the Company subject to the Exchange Right).

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

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

Common directors

Mr. Xuan who is a Director, is also director of Araco and Brightex.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract or had an unexpired service contract with any member of the Enlarged Group which is not determinable by the Enlarged Group within one year without payment of compensation, other than statutory compensation.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors and their respective close associates (as defined in the Listing Rules) had any interest in any business which competes or may compete with the business of the Group or had any other conflict of interest with the Group.

6. INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE ENLARGED GROUP

As at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Enlarged Group.

7. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

8. EXPERTS AND CONSENTS

The following shows the qualifications of the experts who have been named in this circular or have given their respective opinion or advice contained in this circular:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants
Amasse Capital	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter, report and/or opinion as set out in this circular and references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, the above experts did not have any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did it have any direct or indirect interests in any assets which since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up) have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

9. MATERIAL CONTRACTS

Saved for the Sale and Purchase Agreement, there have been no contracts (not being contracts entered into in the ordinary course of business) had been entered into by any member of the Enlarged Group within two years immediately preceding the date of this circular which are or may be material.

10. GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is situated at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

(c) The principal place of business and head office of the Company in China is situated at No. 7, Anxiang Street, Area B, Tianzhu Airport Economic Development Zone, Shunyi District, Beijing, the PRC.

(d) The Company's share registrar and transfer office in Hong Kong is Tricor Investor Services Limited situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The secretary of the Company is Mr. Chow Chiu Chi, a fellow member of the Hong Kong Institute of Certified Public Accountants.

(f) In the event of inconsistency, the English version of this circular shall prevail over its Chinese version.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:30 p.m. (except Saturdays and public holidays) at the principal place of business of the Company in Hong Kong at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum of association and articles of association of the Company;

(b) the Sale and Purchase Agreement;

(c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 26 of this circular;

(d) the letter from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 27 to 45 of this circular;

(e) the written consents referred to in the section headed "Experts and Consents" in this appendix;

(f) the accountants' report on historical financial information of the Target Group, the text of which is set out in Appendix II to this circular;

(g) the independent reporting accountants' assurance report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in appendix III to this circular;

(h) the annual reports of the Company for the three years ended 31 December 2014, 31 December 2015, and 31 December 2016 respectively; and

(i) this circular.

中國自動化集團有限公司
China Automation Group Limited
(HK stock code 0569)
(Incorporated in the Cayman Islands with limited liability)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of China Automation Group Limited (the "**Company**") will be held at Regus Hong Kong Central Plaza, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 12 July 2017 at 10:00 a.m. for the purposes of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) an agreement dated 30 March 2017 (as amended by the supplemental agreement to the Sale and Purchase Agreement dated 23 June 2017) (the "**Sale and Purchase Agreement**") entered into between the Company as purchaser and Ascendent Healthcare (Cayman) Limited as vendor (the "**Vendor**") in respect of the acquisition by the Company from the Vendor of 60% of the total issued share capital of Etern Group Limited (the "**Proposed Acquisition**") (as defined and more particularly described in the Company's circular dated 23 June 2017 (the "**Circular**") and a copy of each of the Sale and Purchase Agreement and the Circular has been produced to the Meeting marked "A" and "B" respectively, and initialed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) subject to completion of the Proposed Acquisition and the terms and conditions of the Sale and Purchase Agreement, the issue of the Convertible Bond (as defined in the Circular and the terms of which have been set out in Schedule 8 to the Sale and Purchase Agreement and in the document produced to the Meeting marked "C" and initialed by the chairman of the Meeting for the purpose of identification) be and is hereby approved and the allotment and issue of the Conversion Shares (as defined in the Circular) upon exercise of the conversion rights attaching to the Convertible Bond in accordance with the terms and conditions of the Convertible Bond be and are hereby approved; and

(c) the directors of the Company be and are hereby authorised for and on behalf of the Company to do all such acts and things, to sign, and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Sale and Purchase Agreement, the Proposed Acquisition, the issue of the Convertible Bond and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bond in accordance with the terms and conditions of the Convertible Bond, and to agree to such variation, amendments or waivers or matters relating thereto (including any variation, amendments or waiver of such documents orany terms thereof, which are not fundamentally different from those as provided in the Sale and Purchase Agreement) as are, in the opinion of the directors of the Company, in the interest of the Company."

By order of the Board
China Automation Group Limited
Xuan Rui Guo
Chairman

Hong Kong, 23 June 2017

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Unit 3205B-3206, 32nd Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint more than one proxy (if a member holds more than one share of the Company) to attend and vote in his stead. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the Company's principal place of business in Hong Kong at Suite 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members will be closed from Friday, 7 July 2017 to Wednesday, 12 July 2017, both days inclusive. In order to be eligible to attend and vote at the Meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 6 July 2017.

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