中國自動化集團有限公司

China Automation Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 569)

Apply Tomorrow's Technology
Safeguard Security Today

2017
Interim Report

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Revenue

For the six months ended 30 June 2017, revenue from continuing operations of the Group increased by 20.8% to RMB412.7 million (1H 2016: RMB341.5 million).

Turnover analysis by the type of goods and services

	Six months ended 30 June				
	2017		2016		Change
	(RMB million)	**Proportion (%)**	(RMB million)	Proportion (%)	(%)
Sales of goods					
– Safety systems and software sales	**160.5**	**38.9**	115.3	33.8	+39.2
– Control valves (Note)	**202.0**	**48.9**	177.2	51.9	+14.0
Sub-total	**362.5**	**87.8**	292.5	85.7	+23.9
– Provision of engineering and maintenance services	**49.4**	**12.0**	39.9	11.7	+23.8
– Distribution of equipment	**0.8**	**0.2**	9.1	2.6	-91.2
Total	**412.7**	**100.0**	341.5	100.0	+20.8

Note: Control valves sales included related service income.

Breaking down by the type of goods and services provided by the Group, revenue related to safety systems and control valves sales, provision of services and distribution of equipment for the six months ended 30 June 2017 amounted to RMB362.5 million (1H 2016: RMB292.5 million), RMB49.4 million (1H 2016: RMB39.9 million) and RMB0.8 million (1H2016: RMB9.1 million) respectively.

Sales of goods

Safety systems and software sales

For the six months ended 30 June 2017, revenue generated from sales of safety and critical control systems and software sales increased by 39.2% to RMB160.5 million (1H 2016: RMB115.3 million). It was mainly attributable to the bottoming-out of the market and therefore more tendering activities in the petrochemical industry.

Control valves

The Group's control valve business saw revenue increased by 14.0% to RMB202.0 million (1H 2016: RMB177.2 million) for the six months ended 30 June 2017. The increase was mainly attributable to (i) more contract won following the market recovery in the petrochemical industry; and (ii) project delayed due to plant relocation activities in last year and re-started during the current interim period.

Provision of engineering and maintenance services

Revenue generated from the provision of engineering and maintenance services increased by 23.8% to RMB49.4 million (1H 2016: RMB39.9 million).

Distribution of equipment

Revenue generated from the distribution of equipment amounted to RMB0.8 million (1H 2016: RMB9.1 million).

In terms of types of goods and services rendered, 87.8% (1H 2016: 85.7%) of the Group's revenue was generated from safety systems and control valves sales, 12.0% (1H 2016: 11.7%) from the provision of engineering and maintenance services and 0.2% (1H 2016: 2.6%) from equipment distribution.

Gross profit

Gross profit for the six months ended 30 June 2017 was RMB34.5 million (1H 2016: RMB73.8 million), representing a 53.3% decrease when compared to that of the corresponding period last year.

The overall gross profit margin for the six months ended 30 June 2017 dropped significantly by 13.2 percentage points to 8.4% (1H 2016: 21.6%).

Gross profit margin analysis by the type of goods and services

	Six months ended 30 June		
	2017 (%)	2016 (%)	Change
Sales of goods			
– Safety systems and software sales	**2.1**	21.4	(19.3)
– Control valves (Note)	**6.6**	13.8	(7.2)
Sub-total	**4.6**	16.9	(12.3)
– Provision of engineering and maintenance services	**35.6**	42.5	(6.9)
– Distribution of equipment	**37.4**	83.8	(46.4)
Total	**8.4**	21.6	(13.2)

Note: Control valves sales included related service income.

Gross profit margin of sales of goods

Gross profit margin of safety systems and software sales

The gross profit margin of safety systems and software sales was lowered to 2.1 percentage points (1H 2016: 21.4%) due to: (i) write-down of inventories amounting to RMB21.0 million that charged to cost of sales. The management of the Group undertook a critical review of the inventory on hand as at 30 June 2017 and performed certain inspection and assessment procedures. It was reported that certain inventory items were found defective and unusable, as such, full provision was made following the prudent management judgment; (ii) declines in software sales of higher margins.

Gross profit margin of control valves

The gross profit margin decreased by 7.2 percentage points to 6.6% (1H 2016: 13.8%) primarily due to (i) project deliveries for those contracts won last year at low margins in order to increase market share; and (ii) a lower proportion of deliveries of high-end specialised control valves for the coal chemical industry.

Gross profit margin for the provision of engineering and maintenance services

The gross profit margin for the provision of engineering and maintenance services marginally decreased by 6.9 percentage points to 35.6% (1H 2016: 42.5%).

Gross profit margin of equipment distribution

The gross profit margin of equipment distribution for the six months ended 30 June 2017 was at 37.4% (1H 2016: 83.8%).

Other income

For the six months ended 30 June 2017, other income amounted to RMB7.8 million (1H 2016: RMB5.0 million). The increase was primarily attributable to the dividend income received from an equity investment in a private entity amounting to RMB2.0 million.

Other gains and losses

For the six months ended 30 June 2017, other losses shrank significantly by RMB15.7 million to RMB2.1 million (1H 2016: losses of RMB17.8 million). The lower losses were primarily due to: (i) a foreign exchange gain of RMB6.1 million (1H2016: foreign exchange losses of RMB3.9 million) due to strengthening of the RMB during the period; (ii) a decrease of RMB3.6 million of allowance for bad and doubtful debts; and (iii) a loss of RMB3.0 million from the disposal of a equity investment in a private entity.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2017 were RMB43.2 million (1H 2016: RMB42.9 million), which remained virtually at the same level as that of the corresponding period last year.

Selling and distribution expenses for the six months ended 30 June 2017 as a percentage of the Group's revenue was 10.5% (1H 2016: 12.6%).

Administrative expenses

Administrative expenses for the six months ended 30 June 2017 increased by 1.0% to RMB83.7 million (1H 2016: RMB82.9 million). The increase was primarily due to the depreciation charges in relation to the new plant of Wuzhong Instrument Company Limited ("Wuzhong Instrument") and certain transaction costs which were directly attributable to the acquisition in the current interim period.

Administrative expenses for the six months ended 30 June 2017 as a percentage of the Group's revenue was 20.3% (1H 2016: 24.3%).

Research and development expenses

Research and development expenses for the six months ended 30 June 2017 were RMB31.8 million (1H 2016: RMB36.1 million). The research and development projects undertaken during the period were mainly related to (i) development of high-end control valves in response to the preferential policies regarding localisation enacted by the Chinese Government; (ii) hardware for turbine machinery control systems.

Finance costs

Finance costs for the six months ended 30 June 2017 increased by 24.0% to RMB28.9 million (1H 2016: RMB23.3 million). The increase was mainly due to the commencement of utilisation of the Wuzhong Instrument plant as well as its fixed assets. As such, the finance costs pertinent to the construction borrowings for the period could no longer be able to be capitalised.

Income tax credit

Income tax credit amounted to RMB1.2 million (1H 2016: income tax credit of RMB0.4 million) for the six months ended 30 June 2017. The differences between the PRC Enterprise Income Tax rate of 25% and the effective tax rates of the Group for both the current and prior interim periods are mainly attributable to: (i) tax benefit granted to certain PRC subsidiaries qualified as "High and New Tech Enterprises" which subject to the preferential rate of 15%; and (ii) the tax losses and deductible temporary differences of several subsidiaries not recognised as deferred tax assets due to the unpredictability of future profit streams of respective subsidiaries.

Loss for the period from continuing operations

The Group recorded loss attributable to equity holders of the Company at RMB146.2 million for the six months ended 30 June 2017 (1H 2016: RMB125.8 million).

DISCONTINUED OPERATIONS

The discontinued operations for the six month ended 30 June 2017 were mainly related to the disposal of a 51% equity interest in Nanjing Huashi Electronics Scientific Company Limited and Nanjing Huashi Power Equipment Company Limited which are engaged in the railway traction and auxiliary power supply related systems and equipment business. The Group recorded losses for the discontinued operations amounting to RMB16.4 million (1H 2016: losses of RMB36.4 million).

LOSS FOR THE PERIOD (FROM CONTINUING AND DISCONTINUED OPERATIONS)

The Group recorded total loss from continuing and discontinued operations for the period amounted to RMB162.6 million for the six months ended 30 June 2017 (1H 2016: RMB162.2 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net cash used in operating activities amounted to RM37.6 million for the six months ended 30 June 2017 (1H 2016: RMB65.0 million). The cash used in for the period was mainly attributable to (i) a higher level of prepayments for projects in the second half of the year; (ii) a lower level of trade and bills payables.

Net cash generated from investing activities amounted to RMB89.9 million for the six months ended 30 June 2017 (1H 2016: net cash used in investing activities amounted to RMB34.4 million). These were mainly related to: (i) a RMB72.4 million deposit received from disposal of subsidiaries engaged in the railway business; and (ii) a RMB42.3 million relocation compensation received by Wuzhong Instrument.

Net cash used in financing activities amounted to RMB34.3 million for the six months ended 30 June 2017 (1H 2016: RMB335.0 million). The Group adopts the financial strategy under which the level of borrowings should be lowered as much as possible in order to save the finance costs. The Group repaid borrowings of RMB190.8 million during the period.

As at 30 June 2017, cash and bank balances (including pledged bank deposits) amounted to RMB207.5 million (31 December 2016: RMB230.9 million).

GEARING POSITION

The net gearing (total borrowings less cash over equity) ratio was 46.2% as at 30 June 2017 (31 December 2016: at 51.1%). As at 30 June 2017, the total borrowings of the Group amounted to RMB829.3 million (31 December 2016: RMB1,003.3 million), of which the guaranteed notes due 2018 (the "Guaranteed Notes") amounted to US$30.0 million (equivalent to approximately RMB201.3 million).

Considering the disposals of subsidiaries of the railway business and agreement made by the Group and debt holders, the directors of the Company (the "Directors") expect that principal amount of US$6,000,000 of the Guaranteed Notes will be redeemed by 30 September 2017 with net carrying value of approximately US$5,944,000 (equivalent to approximately RMB40,270,000) as at 30 June 2017, classified as non-current liabilities presented in the condensed consolidated statement of financial position.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities.

MATERIAL ACQUISITION AND DISPOSALS

ACQUISITION

On 26 July 2017, the Company completed the acquisition (the "Acquisition") from Ascendent Healthcare (Cayman) Ltd. ("Ascendent Healthcare") of 60% of the total issued share capital of Etern Group Ltd., an investment holding company holding 98% equity interest in Suzhou Yongding Hospital Company Limited (蘇州永鼎醫院有限公司) ("Yongding Hospital"), which is principally engaged in hospital business in Suzhou, the PRC. The consideration for the Acquisition was RMB675,588,000 and was settled by way of issue of convertible bond of the Company in the principal amount equal to the consideration (the "Convertible Bond") by the Company to Ascendent Healthcare at completion. Based on the initial conversion price of RMB1.0640 (subject to adjustments), 634,951,127 shares of the Company may fall to be allotted and issued upon full conversion of the Convertible Bond.

Further details of the Acquisition were set out in the announcements of the Company dated 30 March 2017 and 23 June 2017 and the circular of the Company dated 23 June 2017.

DISPOSALS

On 11 July 2017, the Group completed the disposal of the entire equity interest in Beijing Consen Process Control Technology Company Limited for a total consideration of RMB64,810,000. The management of the Group expects to complete the disposal of the entire equity interest in Beijing Liboyuan Investment Management Company Limited for a total consideration of RMB14,890,000 around the end of September 2017. Further details of the disposals were set out in the announcement of the Company dated 26 June 2017.

Save as disclosed in this report, the Group had no other material acquisitions and disposals of subsidiaries for the six months ended 30 June 2017.

FUTURE OUTLOOK

The Group has undertaken a detailed strategic review of the Group for the purpose of formulating business plans and strategies for the future business development of the Group and determining what changes, if any, would be appropriate or desirable in order to optimise the business activities of the Group. The Group also rolled out an internal restructuring programme to dispose of the non-profit making business units. As such, the Group has resolved to dispose its railway traction and auxiliary power supply systems business as it was considered overly competitive and it would be difficult to improve or sustain profitability. Upon completion of the disposals, the Group will have been disposed the whole railway segment.

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

On 26 July 2017, the Group has completed the acquisition of 60% of the total issued share capital of Etern Group Ltd., an investment holding company holding 98% equity interest in Yongding Hospital, which is principally engaged in hospital business in Suzhou, the PRC. Given the promising prospect of the healthcare services sector in the PRC and the historical profitability of acquired hospital business, the board of Directors (the "Board") considers the hospital business would 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.

In order to further enhance growth potential of the Group and maximise shareholders' value, the Group may consider making further investments in the healthcare services sector should suitable opportunities arise.

The Company is committed to the establishment of good corporate governance practices and procedures which serve as an important element of risk management throughout the growth and expansion of the Company. The Company emphasises on maintaining and carrying out sound, solid and effective corporate governance principles and structures. The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the applicable code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") throughout the six months ended 30 June 2017, save and except for the following deviations which are summarised below:

Code provision A.6.7 stipulates that, among others, the Independent Non-executive Directors and other Non-executive Directors should attend general meetings of the Company. Mr. Zhang Xin Zhi, an Independent Non-executive Director, was unable to attend the annual general meeting of the Company held on 29 May 2017 ("2017 AGM") due to other business commitment.

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. On 14 September 2016, Mr. Xuan Rui Guo, the Chairman and executive Director of the Company, has been appointed as the Chief Executive Officer of the Company. The Board believes that with the support of the management vesting the roles of both chairman and chief executive officer by the same person can facilitate execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which currently consists of two Executive Directors and three Independent Non-executive Directors, the interests of the shareholders of the Company will be adequately and fairly represented. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Code.

THE BOARD

The Board is currently composed of the Group Chairman, an Executive Director and three Independent Non-executive Directors.

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board held five meetings to date in 2017.

BOARD COMMITTEES

The Board has established the following committees (each chaired by an Independent Non-executive Director) with defined terms of reference, which are on no less exacting terms than those set out in the Code:

- Audit Committee
- Nomination Committee
- Remuneration Committee

AUDIT COMMITTEE

The Audit Committee was established to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board.

The Audit Committee met two times to date in 2017 to review with management and the Company's internal and external auditors, the Group's significant internal controls and financial matters as set out in the Audit Committee's written terms of reference and make relevant recommendations to the Board.

The Audit Committee's review covers the findings of internal and external auditors, external auditor's independence and performance, provision of non-audit services by our external auditor, the Group's accounting principles and practices, Listing Rules and statutory compliance, connected transactions, internal controls, risk management, treasury, financial reporting matters (including the interim financial report for the six months ended 30 June 2017 for the Board's approval) and the adequacy of resources, qualifications and experience of the staff of the Company's accounting and financial reporting function. Its current members include:

Mr. Ng Wing Fai* – *Committee Chairman*
Mr. Wang Tai Wen*
Mr. Zhang Xin Zhi*

* *Independent Non-executive Director*

NOMINATION COMMITTEE

The Nomination Committee was established to make recommendations to the Board on the appointment of Directors, evaluation of board composition, assessment of the independence of Independent Non-executive Directors and the management of board succession.

The Nomination Committee met one time to date in 2017 to review the board composition, the retirement of directors by rotation, the re-appointment of retiring directors at the 2017 AGM, and to assess the independence of Independent Non-executive Directors. Its current members include:

Mr. Wang Tai Wen* – *Committee Chairman*
Mr. Ng Wing Fai*
Mr. Zhang Xin Zhi*
Mr. Xuan Rui Guo

* *Independent Non-executive Director*

REMUNERATION COMMITTEE

The Remuneration Committee was established to approve the remuneration policy for all Directors and senior executives of the Company, and the grant of share options to employees under the Company's Share Option Scheme. It annually reviews the Group's remuneration policy.

The Remuneration Committee met one time to date in 2017 to review and approve remuneration packages of Executive Directors and senior management of the Company. Its current members include:

Mr. Wang Tai Wen* – *Committee Chairman*
Mr. Ng Wing Fai*
Mr. Zhang Xin Zhi
Mr. Xuan Rui Guo

* *Independent Non-executive Director*

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry with all of the Directors, the Directors confirmed that they had been in compliance with the required standard set out in the Model Code during the six months ended 30 June 2017.

All relevant employees who, because of office or employment, are likely to be in possession of inside information in relation to the Group are also subject to the code of conduct regarding securities transactions on terms no less exacting than the required standard set out in the Model Code.

INVESTOR RELATIONS AND COMMUNICATIONS

In the first half of 2017, the Group continued to adopt a proactive and open approach while conducting extensive information exchanges and communication with investors, so that they could have better knowledge and understanding of the Group's future development strategy, operational situation and financial performance. Such efforts enhanced the transparency of the Group in the capital market and offered strong support to the Group's investors to make informed and reasonable investment decisions.

On the basis of fair disclosure, the Group has maintained sincere and timely communication with investors through various channels to report the Group's latest development:

– Interim results announcement

– Periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company

– Continually arranging meetings between Senior Management and investors and site visits to the Group's facilities and customer sites

– Prompt response to investor enquiries

– The Group's website

In the future, the Group will continuously enhance investor relations. The senior management of the Group will consistently support investor relations, and the Group will persistently make transparent disclosures.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial report has been reviewed by the Company's Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

INTERIM DIVIDEND

The Board did not recommend the distribution of interim dividend for the six months ended 30 June 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had a total of 1,659 employees (31 December 2016: 1,936), of which 235 employees worked for the railway business.

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

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2017, 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 Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code 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 (Notes 2 & 3)	Beneficial owner	1,000,000 (L)	0.01%
	Interest of controlled corporation	763,931,296 (L)	74.53%
	Interest of controlled corporation	248,235,132 (S)	24.19%

Save as disclosed above, as at 30 June 2017, 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 30 June 2017, 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)	74.44%
		248,235,132 (S)	24.19%
Brightex Enterprises Limited (Notes 2 & 3)	Interest of controlled corporation	763,931,296 (L)	74.44%
		248,235,132 (S)	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 30 June 2017, 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 (the "Consortium Agreement") dated 23 June 2016, as supplemented by a side letter dated 14 March 2017, between Ascendent Automation (Cayman) Limited ("AACL"), Araco Investment Limited ("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 (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 Rui Guo ("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 Ascendent Capital Partners II, L.P ("ACP"). The general partner of ACP 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, 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.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 16 June 2007. The Scheme remained valid for a period of ten years commencing on 16 June 2007 and expired on 15 June 2017. There was no share options granted during the six months ended 30 June 2017 and no share options remained outstanding as at 30 June 2017. The Company has not adopted any new share option scheme thereafter.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF CHINA AUTOMATION GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 13 to 35, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (unaudited)	 2016 RMB'000 (unaudited) (re-presented)
Continuing operations			
Revenue	4	**412,668**	341,525
Cost of sales		**(378,153)**	(267,694)
Gross profit		**34,515**	73,831
Other income	5	**7,841**	5,025
Other gains and losses	6	**(2,078)**	(17,845)
Selling and distribution expenses		**(43,188)**	(42,928)
Administrative expenses		**(83,728)**	(82,911)
Research and development expenses		**(31,776)**	(36,137)
Other expenses		**(393)**	(312)
Finance costs	7	**(28,931)**	(23,250)
Share of results of associates		**337**	(1,692)
Loss before taxation		**(147,401)**	(126,219)
Income tax credit	8	**1,215**	393
Loss for the period from continuing operations	9	**(146,186)**	(125,826)
Discontinued operations			
Loss for the period from discontinued operations	10(iii)	**(16,379)**	(36,354)
Loss for the period		**(162,565)**	(162,180)
Other comprehensive expense for the period, net of income tax			
Items that maybe reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(3,969)**	(3,864)
Share of translation reserve of a joint venture		**–**	340
		(3,969)	(3,524)
Total comprehensive expense for the period		**(166,534)**	(165,704)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (unaudited)	 2016 RMB'000 (unaudited) (re-presented)
Loss for the period attributable to:			
Owners of the Company		**(154,793)**	(136,899)
Non-controlling interests		**(7,772)**	(25,281)
		(162,565)	(162,180)
Total comprehensive expense attributable to:			
Owners of the Company		**(158,762)**	(140,423)
Non-controlling interests		**(7,772)**	(25,281)
		(166,534)	(165,704)
Loss per share	12		
From continuing and discontinued operations			
Basic (RMB cents)		**(15.08)**	(13.34)
Diluted (RMB cents)		**N/A**	(13.34)
From continuing operations			
Basic (RMB cents)		**(14.26)**	(11.56)
Diluted (RMB cents)		**N/A**	(11.56)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	13	760,833	883,918
Deposit for acquisition of property, plant and equipment		38,432	40,303
Prepaid lease payments – non-current portion	14	251,016	271,119
Intangible assets	14	49,837	69,273
Goodwill		8,890	8,890
Interests in associates		20,922	20,585
Pledged bank deposits		229	405
Deferred tax assets		71,988	66,486
Available-for-sale ("AFS") financial assets	15	30,326	41,170
		1,232,473	1,402,149
Current assets			
Prepaid lease payments – current portion	14	5,917	6,314
Inventories	16	491,241	481,724
Trade and bills receivables	17	1,057,113	1,420,321
Other receivables and prepayments	18	170,483	145,330
Pledged bank deposits		24,254	61,934
Bank balances and cash		182,992	168,538
		1,932,000	2,284,161
Assets classified as held for sale	10	382,858	50,487
		2,314,858	2,334,648
Current liabilities			
Trade and bills payables	19	408,089	485,228
Other payables, deposits received and accruals	20	270,250	342,528
Dividend payable		6	6
Income tax payable		17,463	23,159
Bank borrowings – due within one year	21	226,531	333,803
		922,339	1,184,724
Liabilities directly associated with assets classified as held for sale	10	300,089	39,177
		1,222,428	1,223,901
Net current assets		1,092,430	1,110,747
Total assets less current liabilities		2,324,903	2,512,896

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Capital and reserves			
Share capital		**9,548**	9,548
Share premium and reserves		**1,219,330**	1,378,092
Equity attributable to owners of the Company		**1,228,878**	1,387,640
Non-controlling interests		**117,259**	125,031
Total equity		**1,346,137**	1,512,671
Non-current liabilities			
Deferred tax liabilities		**16,640**	16,640
Bank borrowings – due after one year	21	**135,000**	200,000
Guaranteed notes	27(ii)	**201,348**	205,567
Corporate bonds		**196,785**	195,679
Other non-current liabilities	22	**428,993**	382,339
		978,766	1,000,225
Total equity and non-current liabilities		**2,324,903**	2,512,896

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 30 June 2017

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory surplus reserves RMB'000 (Note)	Contribution from owners RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
For the six months ended 30 June 2017 (unaudited)											
At 1 January 2017	9,548	649,251	34,666	276,173	619	13,307	–	404,076	1,387,640	125,031	1,512,671
Loss for the period	–	–	–	–	–	–	–	(154,793)	(154,793)	(7,772)	(162,565)
Exchange differences on translation of foreign operations	–	–	–	–	–	(3,969)	–	–	(3,969)	–	(3,969)
Total comprehensive expense for the period	–	–	–	–	–	(3,969)	–	(154,793)	(158,762)	(7,772)	(166,534)
Derecognised on disposal of a subsidiary	–	–	–	(4,188)	–	–	–	4,188	–	–	–
At 30 June 2017	9,548	649,251	34,666	271,985	619	9,338	–	253,471	1,228,878	117,259	1,346,137
For the six months ended 30 June 2016 (unaudited)											
At 1 January 2016	9,548	648,367	34,666	182,499	619	10,014	4,911	882,386	1,773,010	148,171	1,921,181
Loss for the period	–	–	–	–	–	–	–	(136,899)	(136,899)	(25,281)	(162,180)
Exchange differences on translation of foreign operations	–	–	–	–	–	(3,864)	–	–	(3,864)	–	(3,864)
Share of translation reserve of a joint venture	–	–	–	–	–	340	–	–	340	–	340
Total comprehensive expense for the period	–	–	–	–	–	(3,524)	–	(136,899)	(140,423)	(25,281)	(165,704)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	795	–	795	–	795
At 30 June 2016	9,548	648,367	34,666	182,499	619	6,490	5,706	745,487	1,633,382	122,890	1,756,272

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited) (restated)
Operating activities			
Net cash used in operating activities		**(37,586)**	(64,987)
Investing activities			
Interest received		**366**	997
Dividend received from AFS investments		**2,008**	–
Proceeds on disposal of an AFS investment		**7,832**	–
Proceeds on disposal of property, plant and equipment		**533**	1,518
Deposits received on disposal of certain subsidiaries classified as held for sale	10(i)	**72,404**	–
Net cash inflow on completed disposal of a subsidiary classified as held for sale	10(ii)	**3,825**	–
Transaction cost paid for disposal of a subsidiary		**–**	(5,000)
Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment		**(43,948)**	(57,626)
Payments for prepaid lease payment		**–**	(137,569)
Receipt of government grants		**–**	99,254
Receipt of relocation compensation		**42,315**	30,800
Withdrawal of pledged bank deposits		**24,536**	37,832
Placement of pledged bank deposits		**(20,004)**	(4,610)
Net cash generated from (used in) investing activities		**89,867**	(34,404)
Financing activities			
Bank borrowings raised		**143,845**	389,251
Other borrowings raised		**35,000**	–
Repayments of bank borrowings		**(190,770)**	(255,051)
Interest paid		**(22,361)**	(34,906)
Repayments of guaranteed notes including early redemption premium		**–**	(434,291)
Net cash used in financing activities		**(34,286)**	(334,997)
Net increase (decrease) in cash and cash equivalents		**17,995**	(434,388)
Cash and cash equivalents at 1 January		**179,113**	601,241
Effect of foreign exchange rate changes		**(927)**	1,971
Cash and cash equivalents at 30 June, represented by bank balances and cash		**196,181**	168,824

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statement have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to IAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

3. SEGMENT INFORMATION

The Group's reportable and operating segments were identified on the basis of internal reports about components and focused more specifically on the category of customers. The principal categories of customers of the Group were petrochemical and railway in previous years.

During the current interim period, the directors of the Company (the "Directors") resolved to dispose several subsidiaries operated in the railway segment as set out in Note 10. Consequently, the former railway segment is presented as discontinued operations as at 30 June 2017 and excluded from segment analysis. Accordingly, the comparative information for the six months ended 30 June 2016 has been re-presented. The petrochemical segment is the only segment currently operated by the Group as considered by the Directors, being the chief operating decision maker of the Group, for resources allocation and performance assessment.

3. SEGMENT INFORMATION (CONTINUED)

The following is a segment analysis on the Group's revenue and results relating to continuing operations by reportable and operating segment for the period under review:

Six months ended 30 June 2017 (unaudited)

	Petrochemical RMB'000	Total RMB'000
Revenue	**412,668**	**412,668**
Segment loss before taxation	**(136,748)**	**(136,748)**
Income tax credit	**1,215**	**1,215**
Segment loss	**(135,533)**	**(135,533)**
Unallocated other income		**1**
Unallocated other gains and losses		**4,851**
Unallocated administrative expenses		**(5,856)**
Unallocated finance costs		**(9,649)**
Loss for the period (continuing operations)		**(146,186)**

Six months ended 30 June 2016 (unaudited) (re-presented)

	Petrochemical RMB'000	Total RMB'000
Revenue	341,525	341,525
Segment loss before taxation	(102,530)	(102,530)
Income tax credit	393	393
Segment loss	(102,137)	(102,137)
Unallocated other income		292
Unallocated other gains and losses		(4,928)
Unallocated administrative expenses		(5,377)
Unallocated finance costs		(13,676)
Loss for the period (continuing operations)		(125,826)

4. REVENUE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(re-presented)
Sales of goods		
System and software sales	**108,981**	107,358
Industrial control valves sales	**186,477**	147,353
Trading of equipment	**822**	9,092
Sub-total	**296,280**	263,803
Provision of service		
Provision of maintenance and engineering services	**64,884**	69,707
Design and consulting services	**51,504**	8,015
Sub-total	**116,388**	77,722
	412,668	341,525

5. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(re-presented)
Continuing operations		
Bank interest income	**167**	555
Value added tax refund	**773**	575
Government grant (Note)	**4,653**	3,668
Dividend income from AFS investments (Note 15)	**2,008**	–
Others	**240**	227
	7,841	5,025

Note: Other than the deferred income released to profit or loss as set out in Note 22, government grants mainly include the government subsidies received by the Company's subsidiaries from relevant government bodies in connection with expenses on technology development. All government grants were recognised at the time the grants are receivable and the corresponding expenses has already been incurred and recognised in the profit or loss.

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(re-presented)
Continuing operations		
Net foreign exchange gains (losses) (Note)	**6,107**	(3,855)
(Loss) gain on disposal of property, plant and equipment	**(48)**	39
Loss on disposal of an AFS investment (Note 15)	**(3,012)**	–
Allowance on doubtful debts	**(5,125)**	(8,687)
Early redemption premium of guaranteed notes	**–**	(5,342)
	(2,078)	(17,845)

Note: The amount includes the exchange gain relating to the translation of guaranteed notes from United States Dollar ("US$") to RMB amounting to RMB4,851,000 during the current interim period (six months ended 30 June 2016: loss of RMB4,928,000).

7. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(re-presented)
Continuing operations		
Interest on bank borrowings	**10,280**	11,824
Interest on guaranteed notes	**9,649**	13,676
Interest on corporate bonds	**7,056**	–
Interest on long term payable	**1,946**	1,873
	28,931	27,373
Less: amount capitalised under construction in progress	**–**	(4,123)
	28,931	23,250

During the prior interim period, interests capitalised of RMB4,123,000 arose from bank borrowings and long term payable specifically for the purpose of obtaining qualifying assets with a weighted average capitalisation rate of 5.70% per annum.

8. INCOME TAX CREDIT

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(re-presented)
Continuing operations		
Current tax:		
PRC Enterprise Income Tax	**3,457**	14,979
Other jurisdictions	**830**	11
	4,287	14,990
Deferred tax credit	**(5,502)**	(15,383)
	(1,215)	(393)

The differences between the PRC Enterprise Income Tax rate of 25% and the effective tax rates of the Group for both the current and prior interim periods are mainly attributable to: (i) tax benefit granted to certain PRC subsidiaries qualified as "High and New Tech Enterprises" which subject to the preferential rate of 15%; and (ii) the tax losses and deductible temporary differences of several subsidiaries not recognised as deferred tax assets due to the unpredictability of future profit streams of respective subsidiaries.

9. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

Loss for the period from continuing operations has been arrived at after charging the following items:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(re-presented)
Depreciation of property, plant and equipment	**21,662**	18,606
Amortisation of intangible assets	**4,928**	6,453
Total depreciation and amortisation	**26,590**	25,059
Capitalised in inventories	**(18,177)**	(17,273)
	8,413	7,786
Write-down of inventories, included in cost of sales (Note)	**21,032**	3,791
Release of prepaid lease payment	**2,963**	1,669
Minimum operating lease rentals in respect of rented premises	**9,523**	9,210

Note: During the period ended 30 June 2017, certain inventory items were found defective and unusable and the carrying amount of these items was written-down accordingly.

10. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (DISCONTINUED OPERATIONS)

(i) Disposals Groups classified as held for sale

On 26 June 2017, The Company's indirect wholly-owned subsidiary, 北京恒通方大新材料技術有限公司 (transliterated as Beijing Hengtong Fangda New Materials and Technology Company Limited), and an independent third party entered into sale and purchase agreements in relation to (i) the conditional disposal of 100% equity interests of 北京康吉森過程控制技術有限公司 (transliterated as Beijing Consen Process Control Technology Company Limited, "Consen Process Control") at a consideration of approximately RMB64,810,000 ("Disposal A") and (ii) the conditional disposal of 100% equity interests of 北京力博遠投資管理有限公司 (transliterated as Beijing Liboyuan Investment Management Company Limited, "Liboyuan Investment") at a consideration of RMB14,890,000 ("Disposal B", together with Disposal A collectively referred to as the "Disposals").

Consen Process Control (together with its subsidiaries hereinafter collectively referred to as the "Disposal Group A") and Liboyuan Investment (together with its subsidiaries hereinafter collectively referred to as the "Disposal Group B", together with Disposal Group A collectively referred to as the "Disposal Groups") both serve as intra-group immediate holding companies with principal assets being their direct equity investments in Nanjing, Jiangsu Province of the PRC, namely 51% equity interest of 南京華士電子科技有限公司 (transliterated as Nanjing Huashi Electronic Scientific Company Limited, "Nanjing Huashi Electronic") and 51% equity interest of 南京華士電源設備有限公司 (transliterated as Nanjing Huashi Power Equipment Company Limited, "Nanjing Power Equipment") respectively. Nanjing Huashi Electronic and Nanjing Power Equipment engage in the design, production and sale of railway traction control and auxiliary electricity supply systems in the PRC, carried out substantially all the Group's remaining railway operations and were originally disclosed in the railway segment in prior years.

Disposal A was completed on 11 July 2017. At the date of this report, Disposal B is still in the process of the approval and registration procedures with the relevant governmental authorities pursuant to the sale and purchase agreement and not yet completed.

As at 30 June 2017, major classes of assets and liabilities of the Disposal Groups had been classified as held for sale and separately presented in the condensed consolidated statement of financial position. The sale proceeds are expected to exceed or approximate the net carrying amount of the relevant assets and liabilities. Accordingly, no impairment loss has been recognised.

10. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (DISCONTINUED OPERATIONS) (CONTINUED)

(i) Disposal Groups classified as held for sale – continued

As at 30 June 2017	Disposal Group A RMB'000 (unaudited)	Disposal Group B RMB'000 (unaudited)	Total RMB'000 (unaudited)
Property, plant and equipment	21,466	105,166	126,632
Prepaid lease payments	–	17,338	17,338
Intangible assets	11,756	–	11,756
Inventories	43,148	–	43,148
Trade and bills receivables	128,916	–	128,916
Other receivables and prepayments	7,151	1,404	8,555
Pledged bank deposits	33,324	–	33,324
Bank balances and cash	12,578	611	13,189
Total assets classified as held for sale	258,339	124,519	382,858
Trade and bills payables	74,093	–	74,093
Other payables, deposits received and accruals	3,154	32,780	35,934
Bank borrowings	24,145	50,000	74,145
Other borrowings	35,000	–	35,000
Deferred Income	1,133	7,380	8,513
Total liabilities of the Disposal Groups classified as held for sale	137,525	90,160	227,685
Net assets of the Disposal Groups classified as held for sale	120,814	34,359	155,173
– Attributable to owners of the Company	63,684	18,334	82,018
– Attributable to non-controlling interests	57,130	16,025	73,155
Not included in net assets of the Disposal Groups classified as held for sale: Intra-group amount due to a fellow subsidiary to be settled before actual completion of the Disposals	–	6,618	6,618
Total liabilities of the Disposal Groups classified as held for sale	137,525	90,160	227,685
Deposits received by the Group on the Disposals	64,810	7,594	72,404
Total liabilities directly associated with assets classified held for sale	202,335	97,754	300,089

10. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (DISCONTINUED OPERATIONS) (CONTINUED)

(i) Disposal Groups classified as held for sale – continued

Cash inflow of the Disposals	Disposal A RMB'000	Disposal B RMB'000	Total RMB'000
Deposits received as at 30 June 2017	64,810	7,594	72,404
Proceeds receivable upon actual completion of the Disposals	–	7,296	7,296
Total consideration of the Disposals	64,810	14,890	79,700

(ii) Completion of disposal of a subsidiary classified as held for sale

On 20 December 2016, the Directors resolved to dispose a wholly-owned subsidiary, 北京康吉森交通技術有限公司 (transliterated as Beijing Consen Transportation Technology Company Limited, "Beijing Transportation"), to an interested party at the consideration not less than its net book value. The major classes of assets and liabilities of Beijing Transportation, which were originally disclosed in the railway segment in previous years before 2015, had been accordingly classified as held for sale and separately presented in the consolidated statement of financial position as at 31 December 2016.

The major classes of assets and liabilities of the proposed disposal are as follows:

	31 December 2016 RMB'000
Property, plant and equipment	892
Inventories	17,668
Trade and bills receivables	18,375
Other receivables and prepayments	2,378
Pledged bank deposits	599
Bank balances and cash	10,575
Total assets classified as held for sale	50,487
Trade and bills payables	22,351
Other payables, deposits received and accruals	14,519
Income tax payable	(693)
Bank borrowings – due within one year	3,000
Total liabilities directly associated with assets classified held for sale	39,177
Net assets classified as held for sale	11,310

On 16 January 2017, The Group entered into an agreement with an independent party at a consideration of RMB11,500,000 and the transaction was completed on 25 January 2017. The gain on the disposal amounting to RMB190,000 had been recognised in "gain recognised on completion of disposal of a subsidiary classified as held for sale" of this note.

10. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (DISCONTINUED OPERATIONS) (CONTINUED)

(ii) Completion of disposal of a subsidiary classified as held for sale – continued

Net cash inflow on completed disposal of a subsidiary classified as held for sale

	RMB'000
Consideration received	11,500
Less: cash and cash equivalent balances disposed of	(7,675)
	3,825

(iii) Discontinued operations

The results of the discontinued operations included in losses for the current and prior reporting periods are set out below. The comparative profit or loss from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

	Six months ended 30 June	
Loss for the period from discontinued operations	**2017**	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue	**61,609**	45,855
Cost of sales	**(56,601)**	(50,912)
Gross profit	**5,008**	(5,057)
Other income	**640**	1,368
Other gains and losses	**–**	(5,726)
Selling and distribution expenses	**(5,971)**	(8,609)
Administrative expenses	**(8,099)**	(12,099)
Research and development expenses	**(4,941)**	(7,370)
Other expenses	**(435)**	(36)
Finance costs	**(2,771)**	(2,972)
Share of results of a joint venture	**–**	4,903
Loss before taxation	**(16,569)**	(35,598)
Income tax expense	**–**	(756)
Loss for the period	**(16,569)**	(36,354)
Gain recognised on completion of disposal of a subsidiary classified as held for sale	**190**	–
Loss for the period from discontinued operations	**(16,379)**	(36,354)
– Attributable to owners of the Company	**(8,400)**	(18,236)

10. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (DISCONTINUED OPERATIONS) (CONTINUED)

(iii) Discontinued operations – continued

Cash flows from discontinued operations	Six months ended 30 June 2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Net cash outflows from operating activities	(13,443)	(16,658)
Net cash (outflows) inflows from investing activities	(11,507)	26,967
Net cash inflows (outflows) from financing activities	17,330	(15,944)
Net cash outflows	(7,620)	(5,635)

11. DIVIDENDS

No dividends were paid, declared or proposed during the current and prior interim period. The Directors have determined that no dividend will be paid in respect of the current interim period.

12. LOSS PER SHARE

	Six months ended 30 June 2017 RMB cents (unaudited)	2016 RMB cents (unaudited)
Basic loss per share		
From continuing operations	14.26	11.56
From discontinued operations	0.82	1.78
Total basic loss per share	15.08	13.34
Diluted loss per share		
From continuing operations	N/A	11.56
From discontinued operations	N/A	1.78
Total diluted loss per share	N/A	13.34

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

Loss	Six months ended 30 June 2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Attributable to the owners of the Company:		
Loss for the period	154,793	136,899
Less: loss for the period from discontinued operations	(8,590)	(18,236)
Loss used for the purposes of basic and diluted loss per share from continuing operations	146,203	118,663

12. LOSS PER SHARE (CONTINUED)

Weighted average number of shares	Six months ended 30 June 2017 '000 shares (unaudited)	2016 '000 shares (unaudited)
Number of ordinary shares for the purpose of basic loss per share	**1,026,264**	1,026,264

On 25 July 2014, the Company granted share options (the "Share Options") to the Directors and certain employees of the Group. All the Share Options had been lapsed or cancelled upon completion of a conditional mandatory cash offer on 9 September 2016. The calculation of diluted loss per share for the six months ended 30 June 2016 did not take into account the Share Options because the exercise price of the share options was higher than the average market price of the Company's shares throughout the prior interim period.

No diluted loss per share for the current interim period was presented as there was no potential ordinary shares in issue during the current interim period.

13. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased property, plant and equipment from third parties amounting to RMB28,122,000 in order to upgrade its manufacturing capabilities (six months ended 30 June 2016: RMB11,728,000). In addition, the Group incurred RMB2,182,000 on the construction and renovation of its factory plant and office premises (six months ended 30 June 2016: RMB36,634,000).

As at 30 June 2017, property, plant and equipment amounting to RMB126,632,000 have been reclassified as part of the Disposal Groups held for sale as set out in Note 10(i).

14. PREPAID LEASE PAYMENT/INTANGIBLE ASSETS

As at 30 June 2017, the decrease in prepaid lease payment and intangible assets are mainly attributable to the reclassification as part of the Disposal Groups held for sale set out in Note 10(i).

15. AFS FINANCIAL ASSETS

During the current interim period, the Group recorded dividend income of approximately RMB2,008,000 recognised in "other income" as set out in Note 5 (six months ended 30 June 2016: Nil) received from EM Global Limited ("EM Global"), a private entity incorporated in Singapore.

On 28 June 2017, the Group disposed 9.74% equity interest in EM Global to an independent third party for cash proceeds of US$1,148,000 (equivalent to approximately RMB7,832,000). The Group has retained no interest in EM Global after the disposal. The transaction has resulted in the Group recognising a loss of RMB3,012,000 in profit or loss, calculated as follows:

	RMB'000
Cash proceeds	7,832
Less: carrying amount of the EM Global investment	(10,844)
Loss recognised in profit or loss (Note 6)	(3,012)

16. INVENTORIES

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Raw materials	270,169	321,949
Work in progress	144,119	97,433
Finished goods	76,953	62,342
	491,241	481,724

17. TRADE AND BILLS RECEIVABLES

The normal credit period except for the retention receivables granted to the Group's customers is 90 to 365 days. As at 30 June 2017, trade and bills receivables of RMB128,916,000 (31 December 2016: RMB18,375,000) have been classified as part of the Disposal Groups held for sale.

The following is an analysis of trade and bills receivables by age, presented based on the invoice dates, which approximated the respective revenue recognition dates. The analysis below includes those classified as part of the Disposal Groups held for sale, net of allowance for doubtful debts.

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
0 – 90 days	378,844	582,983
91 – 180 days	171,458	316,788
181 – 365 days	381,570	150,282
1 – 2 years	228,222	384,263
2 – 3 years	25,935	4,380
	1,186,029	1,438,696

18. OTHER RECEIVABLES AND PREPAYMENTS

An analysis of other receivables and prepayments is as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Prepayments to suppliers	97,275	71,142
Other receivables	77,098	78,263
Less: allowance on doubtful debts	(3,890)	(4,075)
	170,483	145,330

19. TRADE AND BILLS PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date, including those classified as part of the Disposal Groups held for sale amounting to RMB74,093,000 (31 December 2016: RMB22,351,000).

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
0 – 90 days	**254,703**	232,032
91 – 180 days	**123,009**	138,450
181 – 365 days	**63,766**	70,562
1 – 2 years	**15,650**	45,523
Over 2 years	**25,054**	21,012
	482,182	507,579

20. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Advance from customers	**57,412**	75,808
Accrued payroll and welfare	**10,812**	18,761
Interest payable	**12,190**	5,620
Other deposits, payables and accruals	**67,235**	94,671
Construction costs payables	**107,660**	123,175
Transaction costs payable for disposal of a subsidiary	**–**	7,000
Other tax payable	**14,941**	17,493
	270,250	342,528

21. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB143,845,000 (six months ended 30 June 2016: RMB411,471,000), and repaid bank borrowings amounting to approximately RMB187,870,000 (six months ended 30 June 2016: RMB255,051,000). The borrowings carry interest at market rates of 3.30% to 6.00% (six months ended 30 June 2016: 2.36% to 6.60%) per annum.

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 26.

22. OTHER NON-CURRENT LIABILITIES

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Long term payable	69,617	68,272
Deferred income	359,376	314,067
	428,993	382,339

Movements of the deferred income are as follows:

Movements of deferred income

	Government grants related to assets RMB'000 (Note i)	Government grants related to income RMB'000 (Note ii)	Relocation compensation RMB'000 (Note iii)	Total RMB'000
At 31 December 2016	287,252	3,700	23,115	314,067
Addition	–	7,656	50,000	57,656
Released to profit or loss	(2,470)	(1,364)	–	(3,834)
Reclassified as held for sale	(8,513)	–	–	(8,513)
At 30 June 2017	276,269	9,992	73,115	359,376

Notes:

(i) Deferred income arising from government grant relating to assets represents the government subsidies obtained in relation to the purchase of the land use right and the infrastructure construction, which was included in the condensed consolidated statements of financial position as deferred income and credited to the condensed consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected useful life of the relevant depreciable assets;

(ii) Deferred income arising from government grant relating to income represents the government subsidies obtained as compensation for the expenses on technology development when the grants are received and the corresponding research activities have not been accomplished, which was included in deferred income and recognised in profit or loss when the research and development expenses has already been fully incurred.

(iii) On 21 May 2015, the Company's subsidiary, Wuzhong Instrument Company Limited entered into a relocation agreement with the municipal government of Wuzhong City of Ningxia Hui Autonomous Region in the PRC, among which includes a compensation consideration of approximately RMB123,394,000 attributable to the relevant land use right, property, plant and unmovable equipment. The aggregate relocation compensation proceeds received of RMB73,115,000 in advance together with the remaining compensation of RMB50,279,000 will be recognised as consideration upon derecognition of the relevant assets. Considering the unpredictability of future city planning details and the settlement date of the final instalment is still under continuing negotiation with the government, related assets are not classified as held for sale as at 30 June 2017.

23. OPERATING LEASES

The Group as lessee

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within one year	15,658	10,657
In the second to fifth year inclusive	25,197	9,696
Over five years	8,559	1,709
	49,414	22,062

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a lease term ranging from one to seven years and rentals are fixed at the date of signing of lease agreements.

24. CAPITAL COMMITMENTS

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	127,042	134,511

25. RELATED PARTY TRANSACTIONS

The remuneration of key management personnel during the period was as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other benefits	**7,071**	7,805
Retirement benefit scheme contributions	**222**	271
Equity-settled share-based payments	**–**	153
	7,293	8,229

26. PLEDGE OF ASSETS

At the end of the reporting period, certain of the Group's assets were pledged to secure banking facilities granted to the Group. The aggregate carrying amount of the assets of the Group pledged at the end of the reporting period is as follows:

	30 June 2017	31 December 2016
	RMB'000	RMB'000
	(unaudited)	(audited)
Buildings	**413,352**	442,909
Land use rights	**76,238**	84,911
Inventories	**74,835**	86,767
Bills receivables	**42,965**	96,358
Pledged bank deposits	**57,807**	62,339
	665,197	773,284

As at 30 June 2017, the amounts disclosed above includes the counter-guaranty assets of the Group pledged to an independent third party as guarantor of the corporate bonds with outstanding principal amount of RMB200,000,000 (31 December 2016: corporate bonds with outstanding principal amount of RMB200,000,000 together with available banking facilities of RMB100,000,000). The aggregate carrying amount of these counter-guaranty assets pledged to the independent guarantor are buildings amounting to approximately RMB89,640,000 (31 December 2016: RMB117,284,000) and land use rights amounting to approximately RMB13,960,000 (31 December 2016: RMB21,434,000).

27. EVENTS AFTER THE REPORTING PERIOD

(i) Completion of acquisition of 60% equity interest in Etern Group Ltd.

On 30 March 2017, the Company entered into a sale and purchase agreement (as amended by the supplemental agreement to the sale and purchase agreement dated 23 June 2017, together with the original agreement collectively referred to as the "SPA") with Ascendent Healthcare (Cayman) Limited ("Ascendent Healthcare"), pursuant to which, the Company conditionally agreed to acquire 60% of total issued share capital of Etern Group Ltd. (the "Target Company", together with its subsidiaries collectively referred to as the "Target Group"), an investment holding company holding 98% equity interest in 蘇州永鼎醫院有限公司 (transliterated as Suzhou Yongding Hospital Company Limited), which is principally engaged in hospital business in Suzhou, the PRC. The consideration for the acquisition is RMB675,588,000 and to be settled by issuance of the convertible bond in the principal amount equal to the consideration by the Company to Ascendent Healthcare at completion of the proposed acquisition. Given the historical profitability of the Target Group and the promising prospect of the healthcare services sector in the PRC, the Directors are of the opinion that the acquisition will 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.

On 26 July 2017, all the conditions precedent set out in the SPA had been fulfilled. Upon completion of the proposed acquisition, the Target Company has become a subsidiary of the Company and the financial results of the Target Company and its subsidiaries will be consolidated into the consolidated financial statements of the Group accordingly. This acquisition has been accounted for using the acquisition method. The Group is still in the process of determining the acquisition-date fair value of the convertible bond and the amounts recognised as of the acquisition date for identifiable assets acquired and liabilities assumed and thus the disclosure on the corresponding information cannot be made in these condensed consolidated financial statements. Acquisition-related costs of approximately RMB4,688,000 in total (including service fees to financial advisers, legal counsels, reporting accountants, valuers and other professional expenses) which are directly attributable to the acquisition are recognised immediately in profit or loss.

(ii) Offer to repurchase part of the guaranteed notes

The Company's subsidiary and issuer of the US$30,000,000 guaranteed notes due 2018 (the "Guaranteed Notes"), Tri-control Automation Company Limited ("Tri-control") undertook a consent solicitation from holders of the Guaranteed Notes to amend certain sections of the indenture to, among other things, provide the Group with more flexibility in fundraising and operation, and a supplemental indenture was entered into on July 21, 2017. Pursuant to the supplemental indenture, Tri-Control agreed to make an offer to repurchase part of the Guaranteed Notes with principal amount not less than the lower of US$6,000,000 and the aggregate amount then outstanding to the extent that the aggregate net cash proceeds from certain asset dispositions which exceeds US$6,000,000, within 90 days of such threshold being reached.

Considering the Disposals completed and proceeds received as set out in Note 10, the Directors expect that principal amount of US$6,000,000 of the Guaranteed Notes will be redeemed in 90 days, with net carrying value of approximately US$5,944,000 (equivalent to approximately RMB40,270,000) as at 30 June 2017, classified as non-current liabilities presented in the condensed consolidated statement of financial position.

CORPORATE INFORMATION

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Mr. Wang Chuen Sheng

Independent Non-executive Directors:

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Mr. Zhang Xin Zhi
Mr. Ng Wing Fai

AUTHORISED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

Mr. Ng Wing Fai (Chairman)
Mr. Wang Tai Wen
Mr. Zhang Xin Zhi

REMUNERATION COMMITTEE

Mr. Wang Tai Wen (Chairman)
Mr. Zhang Xin Zhi
Mr. Ng Wing Fai
Mr. Xuan Rui Guo

NOMINATION COMMITTEE

Mr. Zhang Xin Zhi (Chairman)
Mr. Wang Tai Wen
Mr. Ng Wing Fai
Mr. Xuan Rui Guo

SENIOR MANAGEMENT

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Ms. Dong Yan
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