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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)

2018 INTERIM RESULTS ANNOUNCEMENT

The board of directors of the Company (the "Board") is pleased to announce the unaudited results of China Automation Group Limited and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Continuing operations			
Revenue from goods and services	*3, 4*	**809,506**	412,668
Cost of sales		**(609,264)**	(378,153)
Gross profit		**200,242**	34,515
Other income		**14,280**	7,841
Other gains and losses	*5*	**(67,906)**	(2,078)
Impairment losses, net of reversal		**(16,383)**	–
Selling and distribution expenses		**(44,426)**	(43,188)
Administrative expenses		**(93,944)**	(83,728)
Research and development expenses		**(28,590)**	(31,776)
Other expenses		**(497)**	(393)
Finance costs		**(27,937)**	(28,931)
Share of results of associates		**(966)**	337
Loss before taxation		**(66,127)**	(147,401)
Income tax (expense) credit	*6*	**(16,059)**	1,215
Loss for the period from continuing operations		**(82,186)**	(146,186)
Discontinued operations			
Loss for the period from discontinued operations	*7(i)*	**–**	(16,379)
Loss for the period		**(82,186)**	(162,565)

		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Other comprehensive expense for the period, net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value loss on financial liabilities designated as at fair value through profit or loss attributable to changes in credit risk		**(3,000)**	–
		(3,000)	–
Items that maybe reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**1,886**	(3,969)
		1,886	(3,969)
Other comprehensive expense for the period		**(1,114)**	(3,969)
Total comprehensive expense for the period		**(83,300)**	(166,534)
Loss for the period attributable to:			
Owners of the Company		**(100,521)**	(154,793)
Non-controlling interests		**18,335**	(7,772)
		(82,186)	(162,565)
Total comprehensive expense attributable to:			
Owners of the Company		**(101,635)**	(158,762)
Non-controlling interests		**18,335**	(7,772)
		(83,300)	(166,534)
Loss per share	*9*		
From continuing and discontinued operations			
Basic and diluted (RMB cents)		**(9.80)**	(15.08)
From continuing operations			
Basic and diluted (RMB cents)		**(9.80)**	(14.26)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	Notes	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**933,541**	923,516
Deposit for acquisition of property, plant and equipment		**31,497**	30,937
Prepaid lease payments – non-current portion		**272,585**	256,998
Intangible assets		**251,260**	249,136
Goodwill		**445,500**	445,500
Interests in associates		**18,370**	19,336
Equity instruments at fair value through other comprehensive income		**27,153**	–
Available-for-sale financial assets		**–**	26,953
Pledged bank deposits		**536**	119
Deferred tax assets		**87,061**	79,689
		2,067,503	2,032,184
Current assets			
Prepaid lease payments – current portion		**7,190**	6,804
Inventories		**408,197**	425,992
Trade and bills receivables	*10*	**992,019**	1,022,907
Contract assets		**40,850**	–
Other receivables and prepayments		**273,603**	165,766
Available-for-sale financial assets		**–**	31,000
Financial assets at fair value through profit or loss		**1,980**	–
Pledged bank deposits		**38,285**	38,284
Bank balances and cash		**391,814**	308,932
		2,153,938	1,999,685
Current liabilities			
Trade and bills payables	*11*	**568,976**	492,441
Other payables, deposits received and accruals		**221,070**	337,514
Contract liabilities		**91,539**	–
Dividend payable		**1,206**	2,305
Income tax payable		**36,923**	45,898
Bank borrowings – due within one year		**309,100**	304,947

	Notes	**30 June 2018** **RMB'000** **(unaudited)**	31 December 2017 *RMB'000* (audited)
Guaranteed notes – due within one year		**157,888**	155,549
		1,386,702	1,338,654
Net current assets		**767,236**	661,031
Total assets less current liabilities		**2,834,739**	2,693,215
Capital and reserves			
Share capital		**9,548**	9,548
Share premium and reserves		**1,069,237**	1,170,872
Equity attributable to owners of the Company		**1,078,785**	1,180,420
Non-controlling interests		**200,586**	188,179
Total equity		**1,279,371**	1,368,599
Non-current liabilities			
Deferred tax liabilities		**60,649**	66,056
Bank borrowings – due after one year		**85,000**	110,000
Corporate bonds		**199,220**	196,697
Convertible bonds	*12*	**631,426**	560,556
Other non-current liabilities	*13*	**579,073**	391,307
		1,555,368	1,324,616
Total equity and non-current liabilities		**2,834,739**	2,693,215

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net cash generated from (used in) operating activities	**23,148**	(37,586)
Net cash (used in) generated from investing activities	**(41,915)**	89,867
Net cash generated from (used in) financing activities	**101,105**	(34,286)
Net increase in cash and cash equivalents	**82,338**	17,995
Cash and cash equivalents at 1 January	**308,932**	179,113
Effect of foreign exchange rate changes	**544**	(927)
Cash and cash equivalents at 30 June, represented by bank balances and cash	**391,814**	196,181

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statement have been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" ("IAS 34") 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.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRS Standards 2014 – 2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contacts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

Summary of effects arising from initial application of IFRS 15

There was no impact of transition to IFRS 15 on retained profits at 1 January 2018. The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under IFRS 15 at 1 January 2018*
		RMB'000	*RMB'000*	*RMB'000*
Current Assets				
Trade and bills receivables	*(a)*	1,022,907	(31,942)	990,965
Contract assets		–	31,942	31,942
Current Liabilities				
Other payables, deposits received and accruals	*(b)*	337,514	(62,259)	275,255
Contract liabilities		–	62,259	62,259

* The amounts in this column are before the adjustments from the application of IFRS 9.

Notes:

(a) At the date of initial application, unbilled revenue of RMB31,942,000 arising from system and software sales contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was reclassified from trade and bills receivables to contract assets.

(b) As at 1 January 2018, advances from customers of RMB62,259,000 in respect of contracts with customers previously included in other payables, deposits received and accruals were reclassified to contract liabilities.

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale financial assets RMB'000	Financial assets at FVTPL RMB'000	Equity instruments at FVTOCI RMB'000	FVTOCI reserve RMB'000	Convertible bonds reserve RMB'000	Retained profits RMB'000
Closing balance at 31 December, 2017-IAS 39		57,953	–	–	–	–	195,724
Effect arising from initial application of IFRS 9:							
Reclassification							
From available-for-sale financial assets	*(a)*	(57,953)	31,000	26,953	(22,964)	–	22,964
Fair value adjustment attributable to changes in the credit risk of financial liabilities designated as at FVTPL	*(b)*	–	–	–	–	318	(318)
Opening balance at 1 January 2018		–	31,000	26,953	(22,964)	318	218,370

(a) Available-for-sale investments

From available-for-sale equity investments to FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale financial assets, of which RMB26,953,000 related to unquoted equity investments previously measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB26,953,000 were reclassified from available-for-sale financial assets to equity instruments at FVTOCI, of which are unquoted equity investments previously measured at cost less impairment under IAS 39. In addition, impairment losses, net of tax, previously recognised of RMB22,964,000 were transferred from retained profits to FVTOCI reserve as at 1 January 2018.

From available-for-sale debt investments to FVTPL

Unlisted wealth management products with a fair value of RMB31,000,000 were reclassified from available-for-sale financial assets to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding.

(b) Financial liabilities designated as at FVTPL

Convertible notes issued by the Group designated as at FVTPL qualified for designation as measured at FVTPL under IFRS 9. However, the amount of change in the fair value of these financial liabilities that is attributable to changes in the credit risk of those liabilities will be recognised in OCI with the remaining fair value change recognised in profit or loss. Related fair value gains/losses attributable to changes in the credit risk of those liabilities of RMB318,000 were transferred from the retained profits to convertible bonds revaluation reserve on 1 January 2018.

(c) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade and bills receivables. To measure the ECL, contract assets and trade receivables have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprised of pledged bank deposits, bank balances and cash and financial assets included in other receivables and prepayments, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

All loss allowances for financial assets including trade and bills receivables, financial assets included in other receivables and prepayments and contract assets as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Contract assets	Trade and bills receivables
	RMB'000	*RMB'000*
At 31 December 2017 – IAS 39	–	(271,550)
Reclassification	(3,194)	3,194
At 1 January 2018	(3,194)	(268,356)

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards amendments and interpretation

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table showed the adjustments recognised for each individual line item affected.

	31 December 2017 (Audited)	IFRS 15	IFRS 9	1 January 2018 (Restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current Assets				
Available-for-sale financial assets	26,953	–	(26,953)	–
Equity instruments at FVTOCI	–	–	26,953	26,953
Current Assets				
Trade and bill receivables	1,022,907	(31,942)	3,194	994,159
Contract assets	–	31,942	(3,194)	28,748
Available-for-sale financial assets	31,000	–	(31,000)	–
Financial assets at FVTPL	–	–	31,000	31,000
Capital and Reserves				
Retained profits	195,724	–	22,646	218,370
OCI reserve	–	–	(22,646)	(22,646)
Current Liabilities				
Other payables, deposits received and accruals	337,514	(62,259)	–	275,255
Contract liabilities	–	62,259	–	62,259

3. SEGMENT INFORMATION

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the operating management committee, being the chief operating decision maker (the "CODM"), in order to allocate resources to the segments and to assess their performance.

As a result of the completion of the acquisition of a hospital group as set out in July 2017, the CODM has added hospital services segment, being the provision of medical consultation services and sales of pharmaceuticals, to the segment information in July 2017.

Segment revenue and results

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 2018 (unaudited)

	Petrochemical	**Hospital services**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	579,344	230,162	809,506
Segment (loss) profit before taxation	(55,276)	62,548	7,272
Income tax expense	(2,804)	(13,255)	(16,059)
Segment (loss) profit	(58,080)	49,293	(8,787)
Unallocated other income			19
Unallocated other gains and losses			(63,803)
Unallocated impairment losses			1,474
Unallocated administrative expenses			(3,938)
Unallocated finance costs			(7,151)
Loss for the period from continuing operations			(82,186)

Six months ended 30 June 2017 (unaudited)

	Petrochemical
	RMB'000
Segment revenue	412,668
Segment loss before taxation	(136,748)
Income tax credit	1,215
Segment loss	(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 from continuing operations	(146,186)

4. REVENUE FROM GOODS AND SERVICES

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	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of goods		
System and software sales	**214,520**	109,803
Industrial control valves sales	**234,782**	186,477
Pharmaceuticals	**115,291**	–
Sub-total	**564,593**	296,280
Provision of services		
Provision of maintenance and engineering services	**99,040**	64,884
Design and consulting services	**31,002**	51,504
Healthcare services	**114,871**	–
Sub-total	**244,913**	116,388
	809,506	412,668

Disaggregation of revenue relating to continuing operations

	Six months ended 30 June 2018	
Segments	**Petrochemical**	**Hospital services**
	RMB'000	*RMB'000*
Sales of goods		
System and software sales	214,520	–
Industrial control valves sales	234,782	–
Pharmaceuticals	–	115,291
Sub-total	449,302	115,291
Provision of services		
Provision of maintenance and engineering services	99,040	–
Design and consulting services	31,002	–
Healthcare services	–	114,871
Sub-total	130,042	114,871
Total	579,344	230,162
Timing of revenue recognition		
A point in time	548,342	230,162
Over time	31,002	–
Total	579,344	230,162

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Continuing operations		
Net foreign exchange (losses) gains *(Note)*	**(480)**	6,107
Loss on disposal of property, plant and equipment	**(45)**	(48)
Loss on disposal of an available-for-sale financial assets	**–**	(3,012)
Change in fair value of convertible bonds *(Note 12)*	**(67,870)**	–
Gain on financial assets at FVTPL	**489**	–
	(67,906)	3,047

Note: The amount includes the exchange loss relating to the translation of guaranteed notes from United States Dollar ("US$") to RMB amounting to RMB1,973,000 during the current interim period (six months ended 30 June 2017: gain of RMB4,851,000).

6. INCOME TAX EXPENSE (CREDIT)

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Continuing operations		
Current tax:		
PRC Enterprise Income Tax	**28,838**	3,457
Other jurisdictions	**–**	830
	28,838	4,287
Deferred tax credit	**(12,779)**	(5,502)
	16,059	(1,215)

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.

7. DISCONTINUED OPERATIONS

On 25 January 2017, the Group completed the disposal of Beijing Consen Transportation Technology Company Limited ("Beijing Transportation") at a consideration of RMB11,500,000.

On 11 July 2017, the Group completed the disposal of 100% equity interests of Beijing Consen Process Control Technology Company Limited ("Consen Process Control") at a cash consideration of RMB64,810,000. On 27 September 2017, the Group completed the disposal of 100% equity interests of Beijing Liboyuan Investment Management Company Limited ("Liboyuan Investment") at a cash consideration of RMB14,890,000. Consen Process Control holds 51% equity interest of Nanjing Huashi Electronic Scientific Company Limited ("Nanjing Huashi Electronic") and Liboyuan Investment holds 51% equity interest of Nanjing Huashi Power Equipment Company Limited ("Nanjing Power Equipment"). 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.

The results of the above subsidiaries which comprised the discontinued operations included in losses for the prior reporting period are set out below.

(i) Discontinued operations

Loss for the period from discontinued operations

	Six months ended 30 June 2017
	RMB'000
	(unaudited)
Revenue	61,609
Cost of sales	(56,601)
Gross profit	5,008
Other income	640
Selling and distribution expenses	(5,971)
Administrative expenses	(8,099)
Research and development expenses	(4,941)
Other expenses	(435)
Finance costs	(2,771)
Loss before taxation	(16,569)
Loss for the period	(16,569)
Gain recognised on completion of disposal of a subsidiary classified as held for sale	190
Loss for the period from discontinued operations	(16,379)

Cash flows from discontinued operations

	Six months ended 30 June 2017
	RMB'000
	(unaudited)
Net cash outflows used in operating activities	(13,443)
Net cash outflows used in investing activities	(11,507)
Net cash inflows from financing activities	17,330
Net cash outflows	(7,620)

(ii) Cash inflow on disposal of Consen Process Control and Liboyuan Investment

	Consen Process Control *RMB'000*	**Liboyuan Investment** *RMB'000*	**Total** *RMB'000*
Deposits and consideration 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

(iii) Net cash inflow on disposal of Beijing Transportation

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

8. DIVIDENDS

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

9. LOSS PER SHARE

	Six months ended 30 June	
	2018 *RMB cents* **(unaudited)**	2017 *RMB cents* (unaudited)
Basic and diluted loss per share		
From continuing operations	**(9.80)**	(14.26)
From discontinued operations	**–**	(0.82)
Total basic and diluted loss per share	**(9.80)**	(15.08)

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

Loss

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Attributable to the owners of the Company:		
Loss for the period	**(100,521)**	(154,793)
Less: loss for the period from discontinued operations	**–**	(8,590)
Loss used for the purposes of basic and diluted loss per share from continuing operations	**(100,521)**	(146,203)

Number of shares

	Six months ended 30 June	
	2018	2017
	'000 shares	*'000 shares*
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,026,264**	1,026,264

The calculation of diluted loss per share did not take into account the conversion of the Company's outstanding convertible bonds since the assumed exercise would result in a decrease in loss per share.

10. TRADE AND BILLS RECEIVABLES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables pending settlement	**1,037,863**	1,013,630
Trade receivables supported by bills	**237,993**	280,827
Less: impairment losses on trade receivables	**(283,837)**	(271,550)
	992,019	1,022,907

The normal credit period, other than the retention receivables granted to the Group's customers, is 90 to 365 days.

The following is an analysis of trade receivables by age, presented based on the invoice dates, which approximated the respective revenue recognition dates, net of allowance for doubtful debts:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 – 90 days	**451,929**	549,822
91 – 180 days	**197,825**	246,748
181 – 365 days	**183,524**	102,864
1 – 2 years	**67,381**	119,093
Over 2 years	**91,360**	4,380
	992,019	1,022,907

11. TRADE AND BILLS PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date.

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 – 90 days	**262,489**	265,775
91 – 180 days	**189,626**	177,765
181 – 365 days	**84,997**	13,984
1 – 2 years	**9,210**	11,014
Over 2 years	**22,654**	23,903
	568,976	492,441

12. CONVERTIBLE BONDS

The movements in the convertible bonds for each of the reporting period are set out as below:

	Convertible bonds
	RMB'000
Fair value at issue date	631,861
Gain on changes in fair value recognised in profit or loss	(71,305)
At 31 December 2017 (audited)	560,556
Loss on changes in fair value recognised in profit or loss *(Note 5)*	67,870
Fair value changes recognised in FVTOCI reserve	3,000
At 30 June 2018 (unaudited)	631,426

13. OTHER NON-CURRENT LIABILITIES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Long term payable *(Note i)*	**222,386**	70,963
Deferred income *(Note ii)*	**356,687**	320,344
	579,073	391,307

Notes:

i. During the current interim period, the Group obtained a new long term payable amounting RMB150,000,000. The details are as below:

On 18 January 2018, the Company's subsidiaries, Wuzhong Instrument Company Limited ("Wuzhong Instrument") and Beijing Consen Automation Control Company Limited ("Beijing Consen") entered into a capital contribution agreement (the "Agreement") with Ningxia Industrial Guide Fund Management Limited ("Ningxia Industrial"), to finance the investment project of Wuzhong Instrument.

Pursuant to the Agreement, Ningxia Industrial agreed to make a capital contribution of RMB150,000,000 in cash to Wuzhong Instrument.

According to the Agreement, Ningxia Industrial will: (1) not appoint directors or management personnel to Wuzhong Instrument to exercise any significant influence on the operational and financial policies; (2) receive an investment income on a fixed rate of 5.5% per annum, which is expected to be prepaid quarterly by Beijing Consen and guaranteed by the Company. The investment income is not influenced by the operating results of Wuzhong Instrument and Ningxia Industrial is not entitled to share the profit or net assets of Wuzhong Instrument; (3) retrieve the contribution amount of RMB150,000,000 on a scheduled timetable, Wuzhong Instrument will repay in 4 instalments from 31 July 2023 to 31 January 2025. Accordingly, the directors of the Company consider that this transaction is a financing arrangement and will continue to consolidate Wuzhong Instrument as a wholly-owned subsidiary of the Company.

ii. Movements of the deferred income are as follows:

	Government grants related to assets *RMB'000*	**Government grants related to income** *RMB'000*	**Relocation compensation** *RMB'000* *(Note a)*	**Total** *RMB'000*
At 31 December 2017	313,524	6,820	–	320,344
Addition	300	8,670	40,000	48,970
Released to profit or loss	(7,041)	(5,586)	–	(12,627)
At 30 June 2018	306,783	9,904	40,000	356,687

Note:

a. On 29 January 2018, the Group's subsidiary, Ningxia Langsheng Foundry Company Limited ("Ningxia Langsheng") entered into an agreement with the municipal government of Wuzhong City of Ningxia Hui Autonomous Region in the PRC as at a total compensation consideration of approximately RMB81,590,000. The amount of compensation attributable to losses of the land use right, property, plant and unmovable equipment during the relocation. During the current period, the relocation activities have not yet commenced. Accordingly, the compensation income of RMB40,000,000 received in advance is recorded as deferred income and will be recognised as profit or loss based on the relocation progress subsequently.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

CONTINUING OPERATIONS

Revenue

For the six months ended 30 June 2018, revenue from continuing operations of the Group increased by 96.1% to RMB809.5 million (1H 2017: RMB412.7 million). The significant increase in revenue was mainly attributable to the consolidation of the newly acquired hospital services business (acquisition was completed on 26 July 2017) of which contribution amounted to RMB230.2 million.

Revenue generated from the petrochemical segment increased by 40.4% to RMB579.3 million (1H 2017: RMB412.7 million), whereas revenue generated from the newly acquired hospital services segment recorded at RMB230.2 million for the six months ended 30 June 2018.

Turnover analysis by operating segment

	Six months ended 30 June				
	2018		2017		Change
	(RMB' million)	***%***	*(RMB' million)*	*%*	*(%)*
Petrochemical	**579.3**	**71.6**	412.7	100.0	+40.4
Hospital Services	**230.2**	**28.4**	–	–	N/A
	809.5	**100.0**	412.7	100.0	+96.1

Turnover analysis by the type of goods and services rendered

	Six months ended 30 June				
	2018		2017		Change
	(RMB million)	***Proportion (%)***	*(RMB million)*	*Proportion (%)*	*(%)*
Petrochemical Segment					
– Safety systems	**245.5**	**30.3**	160.5	38.9	+53.0
– Control valves *(Note)*	**283.5**	**35.0**	202.0	48.9	40.3
– Provision of engineering and maintenance services	**50.3**	**6.3**	49.4	12.0	+1.8
– Distribution of equipment	**–**	**–**	0.8	0.2	-100.0
Sub-total	**579.3**	**71.6**	412.7	100.0	+40.4
Healthcare Segment					
– Hospital services	**230.2**	**28.4**	–	–	N/A
Total	**809.5**	**100.0**	412.7	100.0	+96.1

Note: Control valve system sales included related services income.

SYSTEM SALES AND RELATED SERVICES TO PETROCHEMICAL INDUSTRIES

Safety systems and engineering design services

For the six months ended 30 June 2018, revenue generated from sales of safety and critical control systems and engineering design services in relation to the petrochemical industries increased by 53.0% to RMB245.5 million (1H 2017: RMB160.5 million). It was mainly attributable to the bottoming-out of the market and therefore more tendering and delivery activities in the petrochemical industry.

Control valves

The Group's control valve business saw revenue increased by 40.3% to RMB283.5 million (1H 2017: RMB202.0 million) for the six months ended 30 June 2018. The increase was mainly attributable to (i) more contract won following the market recovery in the petrochemical industry; and (ii) more large orders won from the alkaline battery as well as the pharmaceutical industry.

Provision of engineering and maintenance services

Revenue generated from the provision of engineering and maintenance services increased by 1.8% to RMB50.3 million (1H 2017: RMB49.4 million).

Distribution of equipment

The Group did not record any revenue from the distribution of equipment (1H 2017: RMB0.8 million).

Hospital Services

Revenue generated from the hospital services for the six months ended 30 June 2018 amounted to RMB230.2 million, of which pharmaceuticals and healthcare services accounted for RMB115.3 million and RMB114.9 million respectively.

In terms of operating segment, 71.6% (1H 2017: 100%) of the Group's revenue was generated from the petrochemical segment and 28.4% (1H2017: Nil) from the healthcare services segment.

Gross profit

Gross profit for the six months ended 30 June 2018 was RMB200.2 million (1H 2017: RMB34.5 million), representing a 480.3% increase when compared to that of the corresponding period last year. Out of the gross profit of RMB200.2 million, RMB76.0 million was contributed by the hospital services business.

The overall gross profit margin for the six months ended 30 June 2018 increased significantly by 16.3 percentage points to 24.7% (1H 2017: 8.4%).

Gross profit margin analysis by the type of goods and services

	Six months ended 30 June		
	2018 *(%)*	2017 *(%)*	Change
Petrochemical Segment			
– Safety systems	19.1	2.1	+17.0
– Control valves *(Note)*	22.9	6.6	+16.3
– Provision of engineering and maintenance services	24.7	35.6	-10.9
– Distribution of equipment	–	37.4	N/A
Sub-total	21.4	8.4	+13.0
Healthcare Segment			
Hospital services	33.1	–	N/A
Total	24.7	8.4	+16.3

GROSS PROFIT MARGIN OF SYSTEM SALES AND ENGINEERING DESIGN SERVICES IN RELATION TO PETROCHEMICAL INDUSTRIES

Gross profit margin of safety systems and engineering design services

The gross profit margin of safety systems and engineering design services in relation to the petrochemical industries increased by 17.0 percentage points to 19.1% (1H 2017: 2.1%). The significant improvement in gross profit margin was primarily due to the Group's revised tendering strategy of emphasizing the quality of the contracts namely higher margin and better payment terms.

Gross profit margin of control valves

The gross profit margin increased by 16.3 percentage points to 22.9% (1H 2017: 6.6%). The significant improvement in gross profit margin was primarily due to the fact that the Group has changed its strategy for bidding new projects to ensure reasonable margin as well as better payment terms.

Gross profit margin for the provision of engineering and maintenance services

The gross profit margin for the provision of engineering and maintenance services decreased by 10.9 percentage points to 24.7% (1H 2017: 35.6%).

Gross profit margin of hospital services

For the six months ended 30 June 2018, the gross profit margin of the hospital services business was 33.1%.

Other income

For the six months ended 30 June 2018, other income amounted to RMB14.3 million (1H 2017: RMB7.8 million). The increase was primarily attributable to the government subsidies received by the Company's subsidiaries from relevant government bodies in connection with expenses on technology development.

Other losses

For the six months ended 30 June 2018, other losses increased significantly to RMB67.9 million (1H 2017: losses of RMB2.1 million). The significant losses were primarily due to the change in fair value of convertible bonds amounted to RMB67.9 million.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2018 were RMB44.4 million (1H 2017: RMB43.2 million), representing an increase of 2.8% when compared to the corresponding period last year.

Selling and distribution expenses for the six months ended 30 June 2018 as a percentage of the Group's revenue was 5.5% (1H 2017: 10.5%).

Administrative expenses

Administrative expenses for the six months ended 30 June 2018 increased by 12.2% to RMB93.9 million (1H 2017: RMB83.7 million). Out of the RMB93.9 million, the consolidation of the hospital services business accounted for RMB17 million. The administrative expenses in relation to the petrochemical business decreased by 8.1% or RMB6.8 million when compared to the corresponding period last year.

Administrative expenses for the six months ended 30 June 2018 as a percentage of the Group's revenue was 11.6% (1H 2017: 20.3%).

Research and development expenses

Research and development expenses for the six months ended 30 June 2018 were RMB28.6 million (1H 2017: RMB31.8 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) core hardware for turbine machinery control systems.

Finance costs

Finance costs for the six months ended 30 June 2018 decreased by 3.5% to RMB27.9 million (1H 2017: RMB28.9 million). The decrease was mainly attributable to the capitalization of interest expenses amounted to RMB4.1 million in connection with the project under construction.

Income tax expenses/(credit)

Income tax expenses amounted to RMB16.1 million (1H 2017: income tax credit of RMB1.2 million) for the six months ended 30 June 2018. The income tax expenses were mainly related to the hospital services business.

The effective tax rate for the six months ended 30 June 2018 was 24.3% (1H 2017: -0.8%).

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 RMB82.2 million for the six months ended 30 June 2018 (1H 2017: RMB146.2 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 disposal completed on 11 July 2017 and 27 September 2017 respectively. The Group recorded losses for the discontinued operations amounting to RMB16.4 million for the six months ended 30 June 2017.

Liquidity, financial resources and capital structure

Net cash generated from operating activities amounted to RMB23.1 million for the six months ended 30 June 2018 (1H 2017: Net cash used in operating activities amounted to RM37.6 million). The Group has adopted a prudent working capital management strategy. As such, the Group was able to generate significant positive operating cashflow due to: (i) the decrease in inventories; (ii) the increase in trade and bills payables; and (iii) the decrease in trade and bills receivables.

Net cash used in investing activities amounted to RMB41.9 million for the six months ended 30 June 2018 (1H 2017: Net cash generated from investing activities amounted to RMB89.9 million). The investing activities were mainly related to the investments in national debt.

Net cash generated from financing activities amounted to RMB101.1 million for the six months ended 30 June 2018 (1H 2017: Net cash used in financing activities amounted to RMB34.3 million). This was mainly attributable to a long term payable obtained by the Group amounting RMB150 million from Ningxia Industrial Guide Fund Management Limited.

As at 30 June 2018, cash and bank balances (including pledged bank deposits) amounted to RMB430.6 million (31 December 2017: RMB347.3 million).

Gearing position

The net gearing (total borrowings including the convertible bonds less cash over equity) ratio was 91.8% as at 30 June 2018 (31 December 2017: at 76.8%). As at 30 June 2018, the total borrowings (including the convertible bonds) of the Group amounted to RMB1,605.0 million (31 December 2017: RMB1,398.7 million), of which the convertible bonds amounted to RMB631.4 million, the guaranteed notes due in 2018 amounted to US$24 million (equivalent to approximately RMB157.9 million) and corporate bonds due in 2019 amounted to RMB199.2 million.

Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The Group has undertaken a detailed strategic review of the Group for the purpose of developing business plans and strategies for its business development in the future, and determining whether any change would be appropriate or desirable in order to optimise its business. The Group has also rolled out an internal restructuring program to dispose of the non-profit making business units.

For the petrochemical segment, the Group will continue its efforts in business development of control valves so as to maintain 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. 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.

In July 2017, the Group completed an acquisition of 60% equity interest in Etern Group Limited, an investment holding company holding 98% interest in Yongding Hospital, which is principally engaged in hospital business in Suzhou, China. Given the promising prospects in the healthcare services sector in China and the profitability track record of acquired hospital business, the board of directors of the Company (the "Board") considers that the hospital business will broaden the income source and enhance the financial stability of the Group, which may help to shield the Group from market pressure on its existing core businesses.

In order to further enhance its growth potential and maximise value for shareholders, the Group may consider making further investments in the healthcare services sector and disposing of the loss-making companies in the petrochemical segment should suitable opportunities arise so as to improve the overall earnings of the Group and increase the relative contribution from the healthcare business segment.

OTHER INFORMATION

Corporate Governance

The Board of Directors and management are committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value. These principles emphasize transparency, accountability and independence.

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board has established the following committees (all 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 Corporate Governance Code of the Listing Rules:

- Audit Committee
- Nomination Committee
- Remuneration Committee

Corporate governance practices adopted by the Company during the six months ended 30 June 2018 are in line with those practices set out in the Company's 2017 Annual Report.

Interim Dividend

The Board did not recommend the distribution of interim dividend for the six months ended 30 June 2018.

Employees and Remuneration Policies

As at 30 June 2018, the Group had a total of 2,259 employees, of which 767 employees worked for the hospital services business).

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

Purchase, Sale or Redemption of Listed Securities

The Company has not redeemed any of its securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

Compliance with the Corporate Governance Code of the Listing Rules

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the applicable code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2018, save and except for the following deviations:

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.

Compliance with the Model Code of the Listing Rules

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. Specific confirmation has been obtained from each Director and relevant employee to confirm compliance with the Model Code for the six months ended 30 June 2018. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2018.

Audit Committee

The condensed consolidated financial statements of the Group for the six months ended 30 June 2018 and the related disclosures have been reviewed and approved by the Audit Committee.

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

Hong Kong, 28 August, 2018

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