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)

2019 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 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Revenue from goods and services	*3*	**968,986**	809,506
Cost of sales		**(724,716)**	(609,264)
Gross profit		**244,270**	200,242
Other income		**22,542**	14,280
Other gains and losses	*5*	**(109,306)**	(67,906)
Impairment losses under expected credit loss model, net of reversal	*10*	**(8,272)**	(16,383)
Selling and distribution expenses		**(54,588)**	(44,426)
Administrative expenses		**(102,692)**	(93,944)
Research and development expenses		**(37,430)**	(28,590)
Other expenses		**(766)**	(497)
Finance costs		**(27,484)**	(27,937)
Share of loss of an associate		**(352)**	(966)
Loss before taxation		**(74,078)**	(66,127)
Income tax expense	*6*	**(21,718)**	(16,059)
Loss for the period		**(95,796)**	(82,186)

	Note	Six months ended 30 June 2019	2018
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Other comprehensive (expense) income for the period			
Items that will not be reclassified to profit or loss:			
Fair value loss on			
– Equity instruments at fair value through other comprehensive income		**(792)**	–
– Financial liabilities designated as at fair value through profit or loss attributable to change in credit risk		**(73)**	(3,000)
		(865)	(3,000)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**592**	1,886
Other comprehensive expense for the period		**(273)**	(1,114)
Total comprehensive expense for the period		**(96,069)**	(83,300)
(Loss) profit for the period attributable to:			
Owners of the Company		**(107,603)**	(100,521)
Non-controlling interests		**11,807**	18,335
		(95,796)	(82,186)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(107,876)**	(101,635)
Non-controlling interests		**11,807**	18,335
		(96,069)	(83,300)
Loss per share	*8*		
Basic and diluted (RMB cents)		**(10.48)**	(9.80)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Notes	**30 June 2019** **RMB'000** **(unaudited)**	31 December 2018 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**1,032,217**	1,008,045
Deposit for acquisition of property, plant and equipment		**207,911**	114,919
Right-of-use assets		**309,276**	–
Prepaid lease payments – non-current portion		**–**	272,759
Intangible assets		**256,565**	257,432
Goodwill		**445,500**	445,500
Interest in an associate		**10,053**	10,405
Pledged bank deposits		**2,641**	1,623
Deferred tax assets		**84,440**	83,989
Equity instruments at fair value through other comprehensive income		**27,234**	28,026
		2,375,837	2,222,698
Current assets			
Prepaid lease payments – current portion		**–**	7,248
Inventories		**445,208**	443,474
Trade and bills receivables	*9*	**1,106,711**	1,158,535
Contract assets		**66,555**	41,782
Other receivables and prepayments		**296,541**	161,265
Financial assets at fair value through profit or loss		**1,871**	1,689
Pledged bank deposits		**50,995**	53,028
Bank balances and cash		**659,382**	793,475
		2,627,263	2,660,496

	Notes	**30 June 2019** *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Current liabilities			
Trade and bills payables	*11*	**645,872**	651,903
Other payables, deposits received and accruals		**171,449**	270,295
Lease liabilities – current portion		**10,493**	–
Contract liabilities		**330,174**	120,554
Dividend payable		**1,606**	2,806
Income tax payable		**36,594**	42,789
Bank borrowings – due within one year		**418,593**	429,131
Corporate bonds – due within one year		**208,854**	196,950
Guaranteed notes – due within one year		**69,534**	69,418
Long term payables – due within one year		**10,000**	–
		1,903,169	1,783,846
Net Current Assets		**724,094**	876,650
Total Assets less Current Liabilities		**3,099,931**	3,099,348
Capital and reserves			
Share capital		**9,548**	9,548
Share premium and reserves		**1,048,668**	1,156,544
Equity attributable to owners of the Company		**1,058,216**	1,166,092
Non-controlling interests		**217,340**	205,688
Total Equity		**1,275,556**	1,371,780
Non-current liabilities			
Deferred tax liabilities		**67,214**	68,033
Bank borrowings – due after one year		**30,000**	60,000
Convertible bonds	*12*	**731,245**	617,784
Lease liabilities – non-current portion		**22,068**	–
Long term payables		**577,286**	573,408
Deferred income		**396,562**	408,343
		1,824,375	1,727,568
Total Equity and Non-current Liabilities		**3,099,931**	3,099,348

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Note	**Six months ended 30 June** **2019** ***RMB'000*** **(unaudited)**	2018 *RMB'000* (unaudited)
Operating activities			
Net cash generated from operating activities		**98,370**	23,148
Investing activities			
Interest received		**1,527**	895
Net cash inflow on disposal of a subsidiary	*9*	**546**	–
Proceeds on disposal of property, plant and equipment		**1,271**	749
Purchase of equity instruments at fair value through other comprehensive income		**–**	(200)
Purchases of property, plant and equipment and payment of deposits for acquisition of property, plant and equipment		**(163,037)**	(46,339)
Payments for intangible assets		**(9,542)**	(10,021)
Addition of prepaid lease payment		**–**	(19,305)
Receipt of government grants		**–**	300
Receipt of relocation compensation		**–**	40,000
Investments in national debt		**–**	(37,085)
Purchase of wealth management products		**(180,868)**	(373,980)
Proceeds from disposal of wealth management products		**181,571**	403,489
Withdrawal of pledged bank deposits		**3,903**	3,498
Placement of pledged bank deposits		**(2,888)**	(3,916)
Net cash used in investing activities		**(167,517)**	(41,915)
Financing activities			
Bank borrowings raised		**31,000**	98,000
Repayments of bank borrowings		**(56,000)**	(119,700)
Repayments of leases liabilities		**(5,593)**	–
Long term payable raised		**400**	150,000
Interest paid		**(33,684)**	(20,168)
Dividends paid to non-controlling shareholders		**(1,200)**	(7,027)
Net cash (used in) generated from financing activities		**(65,077)**	101,105
Net (decrease) increase in cash and cash equivalents		**(134,224)**	82,338
Cash and cash equivalents at 1 January		**793,475**	308,932
Effect of foreign exchange rate changes		**131**	544
Cash and cash equivalents at 30 June, represented by bank balances and cash		**659,382**	391,814

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements 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 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

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 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IFRSs	*Annual Improvements to IFRSs 2015-2017 Cycle*

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17") and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position, Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by prepaid lease payments by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 5.5% to 5.7%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	30,183
Lease liabilities discounted at relevant incremental borrowing rates	27,708
Less: Recognition exemption – short term leases	(1,689)
Lease liabilities as at 1 January 2019	26,019
Analysed as	
Current	7,380
Non-current	18,639
	26,019

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets** *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		26,019
Reclassified from prepaid lease payments	*(a)*	280,007
		306,026
By class		
Land use rights		280,007
Leased premises		26,019
		306,026

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	**Carrying amounts previously reported at 31 December 2018** *RMB'000*	**Adjustments** *RMB'000*	**Carrying amounts under IFRS 16 at 1 January 2019** *RMB'000*
Non-current Assets				
Prepaid lease payments	*(a)*	272,759	(272,759)	–
Right-of-use assets		–	306,026	306,026
Current Assets				
Prepaid lease payments	*(a)*	7,248	(7,248)	–
Non-current Liabilities				
Lease liabilities		–	18,639	18,639
Current Liabilities				
Lease liabilities		–	7,380	7,380

Note:

(a) Upfront payments for leasehold lands in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB7,248,000 and RMB272,759,000 respectively were reclassified to right-of-use assets.

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

3. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

Segments	For the six months ended 30 June 2019 Petrochemical *RMB'000*	 Hospital services *RMB'000*	 Total *RMB'000*
Types of goods or service			
Sales of goods			
System and software sales	276,735	–	276,735
Industrial control valves sales	302,989	–	302,989
Pharmaceuticals	–	129,025	129,025
	579,724	129,025	708,749
Provision of service			
Provision of maintenance and engineering services	103,004	–	103,004
Design and consulting services	30,143	–	30,143
Healthcare services	–	127,090	127,090
	133,147	127,090	260,237
	712,871	256,115	968,986
Geographical markets			
Mainland China	661,967	256,115	918,082
Others	50,904	–	50,904
	712,871	256,115	968,986
Timing of revenue recognition			
A point in time	682,728	256,115	938,843
Over time	30,143	–	30,143
	712,871	256,115	968,986

Segments	For the six months ended 30 June 2018 Petrochemical *RMB'000*	Hospital services *RMB'000*	Total *RMB'000*
Types of goods or service			
Sales of goods			
System and software sales	214,520	–	214,520
Industrial control valves sales	234,782	–	234,782
Pharmaceuticals	–	115,291	115,291
	449,302	115,291	564,593
Provision of service			
Provision of maintenance and engineering services	99,040	–	99,040
Design and consulting services	31,002	–	31,002
Healthcare services	–	114,871	114,871
	130,042	114,871	244,913
	579,344	230,162	809,506
Geographical markets			
Mainland China	511,847	230,162	742,009
Others	67,497	–	67,497
	579,344	230,162	809,506
Timing of revenue recognition			
A point in time	548,342	230,162	778,504
Over time	31,002	–	31,002
	579,344	230,162	809,506

4. 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.

Segment revenue and results

During the current interim period, the CODM has reassessed the resources allocation of each segment which resulted in change of allocation. Segment disclosures of prior reporting period have been represented to conform to the current period's presentation.

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

Six months ended 30 June 2019 (unaudited)

	Petrochemical	**Hospital services**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	712,871	256,115	968,986
Segment (loss) profit before taxation	(20,503)	62,380	41,877
Income tax expense	(5,759)	(15,959)	(21,718)
Segment (loss) profit	(26,262)	46,421	20,159
Unallocated other gains and losses			(113,388)
Unallocated administrative expenses			(2,567)
Loss for the period			(95,796)

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	(58,360)	62,548	4,188
Income tax expense	(2,804)	(13,255)	(16,059)
Segment (loss) profit	(61,164)	49,293	(11,871)
Unallocated other income			19
Unallocated other gains and losses			(67,870)
Unallocated impairment losses			1,474
Unallocated administrative expenses			(3,938)
Loss for the period			(82,186)

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net foreign exchange gains (losses)	**105**	(480)
Loss on disposal of property, plant and equipment	**(120)**	(45)
Loss on changes in fair value of convertible bonds	**(113,388)**	(67,870)
Gain from disposal of wealth management products	**703**	489
Gain from changes in fair value of financial assets at fair value through profit or loss	**182**	–
Gain on disposal of a subsidiary	**3,212**	–
	(109,306)	(67,906)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax – PRC enterprise income tax	**22,988**	28,838
Deferred tax credit	**(1,270)**	(12,779)
	21,718	16,059

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 Technology Enterprises" which subject to the preferential rate of 15%; and (ii) tax losses and deductible temporary differences of certain subsidiaries not recognised as deferred tax assets due to the unpredictability of future profit streams of respective subsidiaries.

7. 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.

8. LOSS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Loss		
Losses for the purposes of basic and diluted loss per share (loss for the period attributable to owners of the Company)	**(107,603)**	(100,521)
Effect of dilutive potential ordinary shares: – Fair value loss on convertible bonds *(Note)*	**N/A**	N/A
Loss for the purpose of diluted loss per share	**(107,603)**	(100,521)

	Six months ended 30 June	
	2019	2018
	'000 shares	*'000 shares*
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,026,264**	1,026,264
Effect of dilutive potential ordinary shares – Convertible bonds *(Note)*	**N/A**	N/A
Weighted average number of ordinary shares for the purpose of diluted loss per share	**1,026,264**	1,026,264

Note: 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.

9. TRADE AND BILLS RECEIVABLES

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**1,011,634**	1,012,928
Less: Allowance for credit losses	**(286,748)**	(279,766)
	724,886	733,162
Bills receivable	**381,825**	425,373
	1,106,711	1,158,535

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 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 – 90 days	**361,953**	378,828
91 – 180 days	**127,858**	136,439
181 – 365 days	**171,048**	120,066
1 – 2 years	**51,213**	84,872
Over 2 years	**12,814**	12,957
	724,886	733,162

10. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Impairment losses recognised (reversed) on:		
– Trade receivables	**7,450**	15,047
– Contract assets	**830**	1,345
– Other receivables	**(8)**	(9)
	8,272	16,383

11. TRADE AND BILLS PAYABLES

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

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 – 90 days	**332,539**	341,469
91 – 180 days	**184,849**	197,146
181 – 365 days	**75,367**	61,373
1 – 2 years	**31,399**	31,142
Over 2 years	**21,718**	20,773
	645,872	651,903

12. CONVERTIBLE BONDS

On 3 May 2019, an announcement was made by the Company, pursuant to which a substantial shareholder of the Company and a company which is wholly-owned by the chairman of the Company are putting forward a proposal for the privatisation of the Company by way of a scheme of arrangement (the "Scheme"). Thereafter the Company received a letter dated 14 June 2019 from the holder of the convertible bonds in which the holder claims that it will not exercise the conversion rights from 14 June 2019 and until after the effective date of the Scheme.

The movement in convertible bonds for the reporting period is set out as below:

	Convertible bonds
	RMB'000
At 31 December 2018 (audited)	617,784
Loss on changes in fair value recognised in profit or loss	113,388
Loss on changes in fair value due to credit risk recognised in other comprehensive income	73
At 30 June 2019 (unaudited)	731,245

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, revenue of the Group increased by 19.7% to RMB969.0 million (1H 2018: RMB809.5 million).

Revenue generated from the petrochemical segment increased by 23.1% to RMB712.9 million (1H 2018: RMB579.3 million), whereas revenue generated from the hospital services segment increased by 11.3% to RMB256.1 million (1H 2018: RMB230.2 million) for the six months ended 30 June 2019.

Turnover analysis by types of goods supplied and services rendered

	For six months ended 30 June				
	2019		2018		Change
		Proportion		*Proportion*	
	(RMB million)	***(%)***	*(RMB million)*	*(%)*	*(%)*
Petrochemical					
– Sales of system and software and industrial control valves plus related services	**712.9**	**73.6**	579.3	71.6	+23.1
Hospital services					
– Sales of pharmaceuticals and healthcare services	**256.1**	**26.4**	230.2	28.4	+11.3
Total	**969.0**	**100.0**	809.5	100.0	+19.7

Petrochemical

For the six months ended 30 June 2019, revenue generated from system and software and industrial control valves plus related services in relation to the petrochemical industries increased by 23.1% to RMB712.9 million (1H2018: RMB579.3 million). Such increase was mainly contributed by sales of system and software and sales of industrial control valves. The increase in revenue generated from the system and software was primarily attributable to the increase in tendering and delivery activities in the petrochemical industry. The increase in revenue generated from industrial control valves was primarily attributable to more contracts won in the petrochemical and pharmaceutical industries during the six months ended 30 June 2019.

The hospital services

Pharmaceutical and healthcare services

Revenue generated from the hospital services for the six months ended 30 June 2019 increased by 11.3% to RMB256.1 million (1H2018: RMB230.2 million). The increase was primarily due to the partial completion of the Phase I internal renovation of the inpatient facilities and building which resulted in an increase in hospital beds for accommodation for patients.

In addition, in terms of operating segment, 73.6% (1H2018: 71.6%) of the Group's revenue was generated from the petrochemical segment and 26.4% (1H2018: 28.4%) from the hospital services segment.

Gross profit

Gross profit for the six months ended 30 June 2019 was RMB244.3 million (1H 2018: RMB200.2 million), representing a 22.0% increase when compared to that of the corresponding period last year.

The overall gross profit margin for the six months ended 30 June 2019 remained stable at 25.2% (1H 2018: 24.7%).

Gross profit analysis by types of goods supplied and services rendered

	For the six months ended 30 June		
	2019	2018	Change
	(%)	*(%)*	*(%)*
Petrochemical			
– System and software and industrial control valves plus related services	**22.4**	21.5	+0.9
Hospital services			
– Sales of pharmaceuticals and healthcare services	**32.9**	33.1	-0.2
Total	**25.2**	24.7	+0.5

Gross profit margin in the petrochemical

The gross profit margin in relation to the revenue generated from the petrochemical business marginally increased by 0.9% to 22.4% (1H2018: 21.5%).

Gross profit margin in the hospital services

For the six months ended 30 June 2019, the gross profit margin of the hospital services business remained stable at 32.9% (1H2018: 33.1%).

Other income

For the six months ended 30 June 2019, other income amounted to RMB22.5 million (1H 2018: RMB14.3 million). The increase was primarily attributable to the increase in government grants 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 2019, other losses increased significantly to RMB109.3 million (1H 2018: losses of RMB67.9 million). The significant losses were primarily due to the increase in fair value of convertible bonds amounted to RMB113.4 million (1H2018: RMB67.9 million).

Impairment losses under expected credit loss model, net of reversal

For the six months ended 30 June 2019, impairment losses under expected credit loss model net of reversal decreased by RMB8.1 million to RMB8.3 million (1H 2018: losses of RMB16.4 million). During the current interim period, the Group provided impairment allowance of RMB8.3 million, In particular, a specific loss allowance of RMB11.2 million had been made to an individual debtor which had been suffering significant financial difficulties during the current interim period. In addition, a specific reversal of RMB5.0 million has been made to an individual debtor due to the settlement of the receivable.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2019 were RMB54.6 million (1H 2018: RMB44.4 million), representing an increase of 23.0% when compared with the corresponding period last year. Such increase was mainly attributable to (i) higher promotion and travelling expenses; and (ii) higher performance bonus for the sales staff in line with the increased business activities.

Selling and distribution expenses for the six months ended 30 June 2019 as a percentage of the Group's revenue was 5.6% (1H 2018: 5.5%).

Administrative expenses

Administrative expenses for the six months ended 30 June 2019 increased by 9.4% to RMB102.7 million (1H 2018: RMB93.9 million). Such increase was mainly attributable to (i) the increased salaries; and (ii) maintenance expenses for the office building and exhibition center.

Administrative expenses for the six months ended 30 June 2019 as a percentage of the Group's revenue was 10.6% (1H 2018: 11.6%).

Research and development expenses

Research and development expenses for the six months ended 30 June 2019 were RMB37.4 million (1H 2018: RMB28.6 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; and (ii) core hardware for turbine machinery control systems.

Finance costs

Finance costs for the six months ended 30 June 2019 decreased by 1.4% to RMB27.5 million (1H 2018: RMB27.9 million) after deducting amount of RMB13.7 million (1H 2018: RMB4.1 million) capitalised under construction in construction.

Income tax expenses

Income tax expenses amounted to RMB21.7 million (1H 2018: RMB16.1 million) for the six months ended 30 June 2019.

The effective tax rate for the six months ended 30 June 2019 was 29.3% (1H 2018: 24.4%).

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 Technology Enterprises" which subject to the preferential rate of 15%; and (ii) tax losses and deductible temporary differences of certain subsidiaries not recognised as deferred tax assets due to the unpredictability of future profit streams of respective subsidiaries.

Loss for the period

As a result of the forgoing, the Group recorded loss attributable to equity holders of the Company at RMB95.8 million for the six months ended 30 June 2019 (1H 2018: RMB82.2 million).

Liquidity, financial resources and capital structure

Net cash generated from operating activities amounted to RMB98.4 million for the six months ended 30 June 2019 (1H 2018: RMB23.1 million). The Group has adopted a prudent working capital management strategy. As such, the Group was able to generate positive operating cash flow due to: (i) the decrease in trade and bills receivables; and (ii) the significant increase in contract liabilities.

Net cash used in investing activities amounted to RMB167.5 million for the six months ended 30 June 2019 (1H 2018: RMB41.9 million). This was primarily due to the purchases of property, plant and equipment in relation to investment projects in Wuzhong city.

Net cash used in financing activities amounted to RMB65.1 million for the six months ended 30 June 2019 (1H 2018: net cash generated from financing activities amounted to RMB101.1 million). The net cash used in financing activities for the period was mainly due to the repayments of bank borrowings amounted to RMB56.0 million.

As at 30 June 2019, cash and bank balances (including pledged bank deposits) amounted to RMB713.0 million (31 December 2018: RMB848.1 million).

Gearing position

The net gearing (total borrowings less cash over equity) ratio was 104.9% as at 30 June 2019 (31 December 2018: at 80.1%). As at 30 June 2019, the total borrowings of the Group amounted to RMB2,045.5 million (31 December 2018: RMB1,946.7 million), of which the long term payables in relation to the capital contribution from Ningxia Industrial Guide Fund Management Limited amounted to RMB500.0 million; the convertible bonds amounted to RMB731.2 million, the corporate bonds due 2019 amounted to RMB208.9 million and the guaranteed notes due 2019 amounted to US$10.0 million (equivalent to approximately RMB69.5 million).

Contingent liabilities

As at 30 June 2019, 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.

At present, China's petrochemical industry has achieved steady performance while undergoing in-depth industrial restructuring. Solving structural overcapacity problem and promoting green development would be the top priority for the industry in the future. Furthermore, the growth of the coal chemical industry has slowed down due to rising coal prices and more stringent environmental protection requirements. As such, the petrochemical and coal chemical industries will continue to face intense competition.

Due to the impact of China's medical and healthcare system reform in respect of drugs price limit, the growth of revenue and profit margin of private hospitals will be under pressure for competition with public hospitals. Moreover, China intends to increase efforts to build more hospitals and to reach a target ratio of Chinese medical practitioners to residents in the PRC which could intensify the competition of healthcare industry in the future. Therefore, the healthcare business of the Company will face challenges.

In light of the above uncertainties in the prospects of the petrochemical and healthcare industries, a proposal was put forward for the privatisation of the Company. Reference is made to the joint announcement (the "**Joint Announcement**") of the Company, Brightex Enterprises Limited ("**Brightex**") and Ascendent Automation (Cayman) Limited ("**AACL**", together with Brightex, the "**Joint Offerors**") dated 14 June 2019. Capitalized terms used in this paragraph shall have the same meanings as defined in the Joint Announcement, unless the context requires otherwise. On 14 June 2019, the Joint Offerors requested the Board to put forward a proposal to the holders of the Scheme Shares for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law, involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price of HK$1.50 in cash for each Scheme Share cancelled. The implementation of the Proposal and the effectiveness of the Scheme is subject to fulfillment and/or waiver (as applicable) of certain conditions as set out in the Joint Announcement. It is anticipated that listing of the Shares on the Stock Exchange will be withdrawn immediately following the effective date of the Scheme. Please refer to the Joint Announcement for further details.

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 2019 are in line with those practices set out in the Company's 2018 Annual Report.

Interim Dividend

The Board did not recommend the distribution of interim dividend for the six months ended 30 June 2019.

Employees and Remuneration Policies

As at 30 June 2019, the Group had a total of 2,356 employees (31 December 2018: 2,307), of which 1,563 employees were related to petrochemical business segment (31 December 2018: 1,514) whereas 793 employees (31 December 2018: 793) were related to healthcare business segment.

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 2019, 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 2019. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2019.

Audit Committee

The consolidated financial statements of the Group for the six months ended 30 June 2019 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, 8 August, 2019

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