



中國自動化

中國自動化集團有限公司

China Automation Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 569)

Apply Tomorrow's Technology

*Safeguard Security **Today***



2016

Interim Report

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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

CONTINUING OPERATIONS

Revenue

For the six months ended 30 June 2016, revenue of the Group decreased by 49.6% year on year to RMB387.4 million (1H 2015: RMB768.6 million).

For the six months ended 30 June 2016, revenue generated from the petrochemical segment decreased significantly by 51.1% to RMB338.7 million (1H 2015: RMB692.0 million), while revenue generated from the railway segment decreased significantly by 36.4% to RMB48.7 million (1H 2015: RMB76.6 million).

Turnover analysis by operating segment

	Six months ended 30 June		2015		Change (%)
	2016 (RMB million)	Proportion (%)	(RMB million)	Proportion (%)	
Petrochemical	338.7	87.4	692.0	90.0	-51.1
Railway	48.7	12.6	76.6	10.0	-36.4
	387.4	100.0	768.6	100.0	-49.6

Turnover analysis by types of goods and services

	Six months ended 30 June		2015		Change (%)
	2016 (RMB million)	Proportion (%)	(RMB million)	Proportion (%)	
System sales and Engineering design services					
– Petrochemical					
– Safety systems	115.4	29.8	330.2	43.0	-65.1
– Control valves	177.2	45.7	291.1	37.9	-39.1
– Railway					
– Traction systems and others	45.8	11.9	76.6	9.9	-40.2
Sub-total	338.4	87.4	697.9	90.8	-51.5
Provision of engineering and maintenance services	39.9	10.3	65.5	8.5	-39.1
Distribution of equipment	9.1	2.3	5.2	0.7	75.0
Total	387.4	100.0	768.6	100.0	-49.6

MANAGEMENT DISCUSSION AND ANALYSIS

Breaking down by the types of goods and services supplied by the Group, revenue related to system sales, provision of engineering and maintenance services as well as distribution of equipment for the six months ended 30 June 2016 amounted to RMB338.4 million (1H 2015: RMB697.9 million), RMB39.9 million (1H 2015: RMB65.5 million) and RMB9.1 million (1H 2015: RMB5.2 million), respectively.

System sales and engineering design services for the petrochemical industry

Safety systems and engineering design services

For the six months ended 30 June 2016, revenue generated from sales of safety and critical control systems and provision of engineering design services for the petrochemical industry decreased significantly by 65.1% to RMB115.4 million (1H 2015: RMB330.2 million). The decrease was mainly due to slower overall demand stemming from slowdown in the overall economy in China and declines in crude oil price.

Control valve

The Group's control valve business shrank by 39.1% to RMB177.2 million (1H 2015: RMB291.1 million) for the six months ended 30 June 2016.

System sales to the railway industry

Traction system and others

Revenue generated from the traction system and others business decreased significantly by 40.2% to RMB45.8 million (1H 2015: RMB76.6 million). This was mainly resulted from the delay in rolling stocks delivery for Guangzhou Subway Line Number 9 in the first half of 2016.

Provision of engineering and maintenance services

Revenue generated from the provision of engineering and maintenance services decreased by 39.1% to RMB39.9 million (1H 2015: RMB65.5 million).

Distribution of equipment

Revenue from equipment distribution amounted to RMB9.1 million (1H 2015: RMB5.2 million).

Breaking down by business segment, 87.4% (1H 2015: 90.8%) of the revenue was generated from system sales, 10.3% (1H 2015: 8.5%) from provision of engineering and maintenance services and 2.3% (1H 2015: 0.7%) from distribution of equipment for the six months ended 30 June 2016.

In addition, in terms of industry segment, 87.4% (1H 2015: 90.0%) of the Group's revenue was generated from the petrochemical segment and 12.6% (1H 2015: 10.0%) was from the railway segment.

Gross profit

Gross profit for the six months ended 30 June 2016 was RMB72.6 million (1H 2015: RMB268.3 million), representing a 72.9% decrease when compared to that of the corresponding period last year.

The overall gross profit margin dropped significantly by 16.2 percentage points to 18.7% for the six months ended 30 June 2016 (1H 2015: 34.9%).

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin analysis by types of goods and services supplied

	Six months ended 30 June		
	2016 (%)	2015 (%)	Change (% point)
System sales and Engineering design services			
– Petrochemical			
– Safety system	24.3	34.5	-10.2
– Control valve	13.8	34.4	-20.6
– Railway			
– Traction system and others	-9.9	12.6	-22.5
Sub-total	14.2	33.2	-19.0
Provision of engineering and maintenance services	42.5	63.4	-20.9
Distribution of equipment	83.8	55.3	28.5
Total	18.7	34.9	-16.2

Gross profit margin of system sales and engineering design services as well as control valves for the petrochemical industry

Gross profit margin of system sales and engineering design services

The gross profit margin of safety and critical control systems and engineering design services dropped by 10.2 percentage points to 24.3% (1H 2015: 34.5%) due to significant decline in turnover and therefore loss of economy of scales.

Gross profit margin of control valves

The gross profit margin decreased by 20.6 percentage points to 13.8% (1H 2015: 34.4%) primarily due to (i) keen competition in the market; and (ii) lower proportion of delivery of high-end specialized control valves for coal chemical industry.

Gross profit margin of system sales for the railway industry

Gross profit margin of traction system and others

The gross profit margin recorded negative margin at -9.9% (1H 2015: 12.6%) was primarily due to (i) lower level of output and loss of economies of scale; (ii) the delivery of low-margin traction systems for subway projects.

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 20.9 percentage points to 42.5% (1H 2015: 63.4%).

Gross profit margin of distribution of equipment

The gross profit margin of the equipment distribution business increased to 83.8% (1H 2015: 55.3%).

Other income

For the six months ended 30 June 2016, other income amounted to RMB6.4 million (1H 2015: RMB12.4 million). This was primarily due to lower VAT refund.

Other losses

For the six months ended 30 June 2016, other losses decreased by RMB5.2 million to RMB27.4 million (1H 2015: losses of RMB32.6 million). The decrease was primarily due to: (i) a decrease of RMB11.8 million in net foreign exchange loss; (ii) a decrease of RMB8.9 million in early redemption premium of guaranteed notes; but offset by (iii) an increase of RMB15.5 million of allowance on bad and doubtful debts and inventories.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2016 were RMB51.5 million (1H 2015: RMB67.2 million), representing a decrease of 23.4% when compared with that of the corresponding period last year. The decrease was mainly attributable to: (i) decrease in salaries and bonus; and (ii) lower traveling and entertainment expenses relating to the lower turnover.

Administrative expenses

Administrative expenses for the six months ended 30 June 2016 were RMB95.0 million (1H 2015: RMB103.3 million), representing a decrease of 8.0% when compared with that of the corresponding period last year. The decrease was mainly attributable to (i) the decrease in salaries and bonus; (ii) amortisation expenses relating to railway licenses as well as certain non-patented technologies were charged to the first half of 2015 but no such expenses were charged to the first half of 2016 because impairment losses were made for these intangible assets in the second half of 2015.

Research and development expenses

Research and development expenses for the six months ended 30 June 2016 were RMB43.5 million (1H 2015: RMB36.4 million). The research and development projects undertaken were mainly related to development of: (i) high-end control valves in response to the preferential policies regarding localization enacted by the Chinese Government; (ii) turbine machinery control systems for the upstream oil and gas pipeline as well as traction systems and auxiliary electricity supply related products for trams.

Finance costs

Finance costs for the six months ended 30 June 2016 decreased significantly by 57.3% when compared with that of the corresponding period last year to RMB26.2 million (1H 2015: RMB61.4 million). The decrease was mainly due to the early redemption and repayment of the guaranteed notes due April 2016 ("2016 Guaranteed Notes").

Income tax expenses

Income tax expenses amounted to RMB0.4 million (1H 2015: RMB16.0 million) for the six months ended 30 June 2016. The negative effective tax rate for the six months ended 30 June 2016 is mainly attributable to the current 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 from continuing operations

The Group recorded loss attributable to equity holders of the Company at RMB162.2 million for the six months ended 30 June 2016 (1H 2015: RMB35.5 million).

DISCONTINUED OPERATIONS

The discontinued operation for the six month ended 30 June 2015 was related to the disposal of 76.7% equity interest in Beijing Jiaoda Microunion Technology Company Limited.

(LOSS) PROFIT FOR THE PERIOD (FROM CONTINUING AND DISCONTINUED OPERATIONS)

The Group recorded loss for the period amounted to RMB162.2 million for the six months ended 30 June 2016 (1H 2015: profit RMB181.8 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net cash used in operating activities amounted to RMB87.2 million for the six months ended 30 June 2016 (1H 2015: net cash generated from operating activities amounted to RMB0.2 million). This was mainly attributable to (i) the increase in inventories level resulting from projects delays; (ii) higher level of prepayments to suppliers; (iii) lower level of trade and bills payables; and (iv) lower level of other payables and accruals.

Net cash used in investing activities amounted to RMB34.4 million for the six months ended 30 June 2016 (1H 2015: net cash generated from investing activities amounted to RMB765.0 million). These were mainly related to: (i) increase in prepaid lease payment of RMB137.6 million (1H 2015: RMB33.3 million) for factory plant of Wuzhong Instrument Company Limited ("Wuzhong Instrument") offset by (ii) receipt of government grants for acquisition of property, plant and equipment for Wuzhong Instrument's new factory plant and office premises amounted to RMB99.3 million; and (iii) receipt of Wuzhong Instrument plant relocation compensation amounted to RMB30.8 million.

Net cash used in financing activities amounted to RMB312.8 million for the six months ended 30 June 2016 (1H 2015: RMB867.1 million). This was mainly attributable to the repayment of the 2016 Guaranteed Notes (including the early redemption premium) amounted to RMB434.3 million (1H 2015: RMB759.3 million).

As at 30 June 2016, cash and bank balances (including bank deposits under conditions) amounted to RMB213.9 million (31 December 2015: RMB679.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

GEARING POSITION

The net gearing (total borrowings less cash over equity) ratio was 38.8% as at 30 June 2016 (31 December 2015: at 25.0%). As at 30 June 2016, the total borrowings of the Group amounted to RMB895.9 million (31 December 2015: RMB1,159.7 million), of which the guaranteed notes due 2018 amounted to US\$30 million (equivalent to approximately RMB195.9 million).

SIGNIFICANT INVESTMENTS, MERGERS AND ACQUISITIONS

For the six months ended 30 June 2016, the Group had no significant investments, mergers and acquisitions.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The Group will strive to maintain its leading position in its core businesses in two major industries of petrochemical and railway.

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

For the railway segment, the Group will further enhance business development of traction and auxiliary power supply systems. The Group will endeavor additional efforts in securing more traction system projects for urban rail transit.

With a firm footing established in on its solid businesses of safety and critical control systems, control valves, and traction and auxiliary power supply systems, the Group is confident about maximizing return for shareholders.

CORPORATE GOVERNANCE

The board of directors (the “Board”) 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.

Corporate governance practices adopted by the Company during the six-month ended 30 June 2016 were in line with those practices set out in the Company’s 2015 Annual Report.

THE BOARD

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

The role of the Chairman is separate from that of the Chief Executive Officer. This is with a view to enhance their respective independence, accountability and responsibility.

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board held six meetings to date in 2016.

BOARD COMMITTEES

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

- Audit Committee
- Nomination Committee
- Remuneration Committee

AUDIT COMMITTEE

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

The Audit Committee met two times to date in 2016 to review with management and the Company’s internal and external auditors, the Group’s significant internal controls and financial matters as set out in the Audit Committee’s written terms of reference and make relevant recommendations to the Board.

The Audit Committee’s review covers the findings of internal and external auditors, external auditor’s independence and performance, provision of non-audit services by our external auditor, the Group’s accounting principles and practices, Listing Rules and statutory compliance, connected transactions, internal controls, risk management, treasury, financial reporting matters (including the interim financial report for the six months ended 30 June 2016 for the Board’s approval) and the adequacy of resources, qualifications and experience of the staff of the Company’s accounting and financial reporting function. Its current members include:

Mr. Ng Wing Fai* – *Committee Chairman*
Mr. Wang Tai Wen*
Mr. Sui Yong Bin*

NOMINATION COMMITTEE

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

The Nomination Committee met one time to date in 2016 to review the board composition, the retirement of directors by rotation, the re-appointment of retiring directors at the 2016 Annual General Meeting, and to assess the independence of Independent Non-executive Directors. Its current members include:

Mr. Sui Yong Bin* – *Committee Chairman*
Mr. Wang Tai Wen*
Mr. Ng Wing Fai*
Mr. Xuan Rui Guo
Mr. Kuang Jian Ping

REMUNERATION COMMITTEE

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

The Remuneration Committee met one time to date in 2016 to review and approve remuneration packages of Executive Directors and senior management of the Company. Its current members include:

Mr. Wang Tai Wen* – *Committee Chairman*
Mr. Sui Yong Bin*
Mr. Ng Wing Fai*
Mr. Xuan Rui Guo
Mr. Huang Zhi Yong

* Independent Non-executive Director

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Reference is made to the announcement of interim results (the “2016 Interim Results Announcement”) for the six months ended 30 June 2016 published on 28 July 2016. The Company would like to clarify that the section headed “OTHER INFORMATION – Compliance with the corporate governance code of the listing rules” as disclosed on page 29 of the 2016 Interim Results Announcement should read as follows:

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 of the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2016, save and except for the following deviations which are summarized below:

Code provision A.6.7

Code provision A.6.7 stipulates that, among others, the independent non-executive Directors and other non-executive Directors should attend general meetings of the Company. Mr. Sui Yong Bin, an independent non-executive Director, was unable to attend the annual general meeting of the Company held on 27 May 2016 (“2016 AGM”) due to medical condition. Mr. Wang Tai Wen, an independent non-executive Director, was also unable to attend the 2016 AGM due to other business commitment.

Code provision E.1.2

Code provision E.1.2 stipulates that, among others, the chairman of the board should attend the annual general meeting of the Company. Mr. Xuan Rui Guo, the Chairman of the Board, was unable to attend the 2016 AGM due to other business commitment.

The corporate governance practices of the Company will be reviewed and updated from time to time in order to comply with the Listing Rules requirements.

DIRECTORS’ AND RELEVANT EMPLOYEES’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules as

the Company’s code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry with all of the Directors, the Directors confirmed that they had been in compliance with the required standard set out in the Model Code during the six months ended 30 June 2016.

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

INVESTOR RELATIONS AND COMMUNICATIONS

In the first half of 2016, the Group continued to adopt a proactive and open approach while conducting extensive information exchanges and communication with investors, so that they could have better knowledge and understanding of the Group’s future development strategy, operational situation and financial performance. Such efforts enhanced the transparency of the Group in the capital market and offered strong support to the Group’s investors to make informed and reasonable investment decisions.

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

- Interim results announcement
- Periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company
- Continually arranging meetings between Senior Management and investors and site visits to the Group’s facilities and customer sites
- Prompt response to investor enquiries
- The Group’s website

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

OTHER INFORMATION

REVIEW OF INTERIM RESULTS

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

INTERIM DIVIDEND

The Board did not recommend the distribution of interim dividend for the six months ended 30 June 2016.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had a total of 1,661 employees (31 December 2015: 2,024).

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

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

LONG POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Director	No. of shares				Interest in underlying shares pursuant to the share options scheme (Note 2)	Total	Approximate percentage of shareholding
	Personal interest	Family interest	Corporate interest	Other interest			
Mr. Xuan Rui Guo	1,000,000	-	457,933,541 (Note 1)	-	3,100,000	462,033,541	45.02%
Mr. Huang Zhi Yong	-	-	-	-	4,380,000	4,380,000	0.43%
Mr. Kuang Jian Ping	-	-	-	-	4,380,000	4,380,000	0.43%
Mr. Wang Tai Wen	-	-	-	-	200,000	200,000	0.02%
Mr. Ng Wing Fai	-	-	-	-	200,000	200,000	0.02%

Notes: (1) Araco Investment Limited ("Araco") was the beneficial owner of 457,933,541 shares of the Company. Araco was a wholly-owned subsidiary of Brightex Enterprises Limited ("Brightex") which was in turn wholly-owned by Mr. Xuan Rui Guo ("Mr. Xuan"). Accordingly, Mr. Xuan was deemed to be interested in the 457,933,541 shares held by Araco by virtue of the SFO.

(2) Certain Directors have been granted share options under a share option scheme. Details of the share option scheme are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the interests of persons (not being a Director or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name	Capacity	Number of shares	Percentage of holding
Araco	Beneficial owner	457,933,541	44.62%
Brightex (Note)	Interest in a controlled corporation	457,933,541	44.62%

Note: Araco was a wholly-owned subsidiary of Brightex which was in turn wholly-owned by Mr. Xuan. Therefore, Brightex was deemed to be interested in such 457,933,541 shares held by Araco by virtue of the SFO.

All the interests stated above represent long positions.

Save as disclosed above, as at 30 June 2016, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 16 June 2007 for the primary purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the following participants: (i) any executive or non-executive Directors including independent non-executive Directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive Directors of each member of the Group; (iii) any consultants, professional and other advisers to each member of the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives of the Company or substantial shareholders of the Company; (v) any associates of directors, chief executive or substantial shareholder of the Company; and (vi) any employees (whether full-time or part-time) of substantial shareholders of the Company. The Scheme will remain valid for a period of ten years commencing on 16 June 2007.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the total number of shares of the Company in issue as at 29 May 2013 (being 102,626,372 shares), the date of approving refreshment of scheme mandate limit by an ordinary resolution of the shareholders of the Company.

The total number of shares issued and to be issued in respect of which options granted and may be granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue, unless with the prior approval from the Company's shareholders in a general meeting with such participant and his associates abstaining from voting.

Options granted to substantial shareholders of the Company or independent non-executive Directors in any 12-month period (a) representing in aggregate in excess of 0.1% of the total number of the Company's shares in issue and (b) with an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000, must be approved by the shareholders of the Company in a general meeting.

An amount of HK\$1 is payable by participants on acceptance of the option as consideration for the grant within 28 days from the date upon which the offer is made. Options may be exercised at any time during a period to be determined by the board at its absolute discretion and notified by the board to each grantee, and such period shall not be more than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

OTHER INFORMATION

On 25 July 2014, the board resolved to grant 102,626,000 share options (the "Share Options") to the Directors and to the employees of the Company, details of such Share Options outstanding as at 1 January 2016 and as at 30 June 2016 were as follows:

Grantees	Date of grant (Note)	Exercise price per share (HK\$)	Number of shares subject to outstanding Share Options as at 1 January 2016	Number of Share Options			Number of shares subject to outstanding Share Options as at 30 June 2016
				Exercised during the six months ended 30 June 2016	Lapsed during the six months ended 30 June 2016	Cancelled during the six months ended 30 June 2016	
Mr. Xuan Rui Guo	25/7/2014	HK\$1.6	3,100,000	-	-	-	3,100,000
Mr. Huang Zhi Yong	25/7/2014	HK\$1.6	4,380,000	-	-	-	4,380,000
Mr. Kuang Jian Ping	25/7/2014	HK\$1.6	4,380,000	-	-	-	4,380,000
Mr. Wang Tai Wen	25/7/2014	HK\$1.6	200,000	-	-	-	200,000
Mr. Ng Wing Fai	25/7/2014	HK\$1.6	200,000	-	-	-	200,000
Employees	25/7/2014	HK\$1.6	90,366,000	-	-	-	90,366,000
Total			102,626,000	-	-	-	102,626,000

Note:

The Share Options have a validity period from 25 July 2014 to 24 July 2018. None of the Share Options was exercisable during the period from 25 July 2014 to 24 July 2015. The Share Options have been and will be exercisable in the following manner:

- (i) up to approximately one third of the Share Options became exercisable commencing on 25 July 2015;
- (ii) up to approximately one third of the Share Options will become exercisable commencing on 25 July 2016;
- (iii) up to approximately one third of the Share Options will become exercisable commencing on 25 July 2017;

provided that the relevant performance targets are achieved, and the closing price of the share of the Company on the trading day immediately preceding the date of exercise is HK\$2.4 or above.

The fair value of the Share Options granted by the Company under the Scheme is set out in note 46 to the consolidated financial statements of the 2015 Annual Report.

As at 30 June 2016, the Share Options remain outstanding and valid. However, as the closing price per share of the Company was HK\$1.18 as at 30 June 2016 and was lower than HK\$2.4, all the Share Options were not exercisable as at 30 June 2016. For the six months ended 30 June 2016, no options were granted, exercised, cancelled or lapsed.

THE OFFERS

The Company was informed by Mr. Xuan, the chairman and an executive director of the Company that on 23 June 2016, Mr. Xuan and Araco, a company incorporated in the British Virgin Islands ("BVI") and indirectly wholly-owned by Mr. Xuan (the "Offeror") entered into a sale and purchase agreement ("SPA") with, among others, Consen Group Holding Inc., the immediate holding company of the Company incorporated in the BVI ("Consen Group") pursuant to which the Offeror agreed to acquire 457,933,541 shares of the Company from Consen Group, representing approximately 44.62% equity interest of the Company.

Completion of the SPA took place on 24 June 2016, immediately upon which, Mr. Xuan and the Offeror became collectively interested in approximately 44.72% of the voting rights in the Company. Accordingly, pursuant to the Hong Kong Code on Takeovers and Mergers, Mr. Xuan, through the Offeror, is required to make a conditional mandatory cash offer for all the issued shares of the Company which are not already owned by the Offeror and parties acting in concert with any of them (the "Concert Group"), and to cancel all outstanding share options of the Company (other than those held by the Concert Group) (the "Offers").

OTHER INFORMATION

Details of the Offers are set out in the announcement dated 24 June 2016 and the composite offer and response document dated 5 August 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save for the redemption of guaranteed notes which are listed on the Singapore Stock Exchange Securities Trading Limited as disclosed in note 21 to the unaudited condensed consolidated financial statement, the Company has not redeemed any of its securities for the six months ended 30 June 2016. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the six months ended 30 June 2016.

CLARIFICATION

2015 INTERIM RESULTS ANNOUNCEMENT

Reference is made to the announcement of interim results (the "2015 Interim Results Announcement") for the six months ended 30 June 2015 published on 26 August 2015. The Company would like to clarify that the section headed "OTHER INFORMATION – Purchase, sale of redemption of listed securities" as disclosed on page 27 of the 2015 Interim Results Announcement should read as follows:

"Purchase, sale or redemption of listed securities

Save for the redemption of guaranteed notes which are listed on the Singapore Stock Exchange Securities Trading Limited as disclosed in note 14 to the unaudited condensed consolidated financial statements, the Company has not redeemed any of its listed 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."

2015 INTERIM REPORT

Reference is made to the interim report (the "2015 Interim Report") for the six months ended 30 June 2015 published on 21 September 2015. The Company would like to clarify that the section headed "PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES" as disclosed on page 11 of the 2015 Interim Report should read as follows:

"Purchase, sale or redemption of listed securities

Save for the redemption of guaranteed notes which are listed on the Singapore Stock Exchange Securities Trading Limited as disclosed in note 22 to the unaudited condensed consolidated financial statements, the Company has not redeemed any of its listed securities for the six months ended 30 June 2015. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the six months ended 30 June 2015."

2015 ANNUAL RESULTS ANNOUNCEMENT

Reference is made to the announcement of annual results (the "2015 Annual Results Announcement") for the year ended 31 December 2015 published on 24 March 2016. The Company would like to clarify that the section headed "GENERAL – PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY" as disclosed on page 46 of the 2015 Annual Results Announcement should read as follows:

"Purchase, sale or redemption of the listed securities of the company

Save for the redemption of guaranteed notes which are listed on the Singapore Stock Exchange Securities Trading Limited as disclosed in note 18 to the consolidated financial statements, the Company has not redeemed any of its listed securities for the year ended 31 December 2015. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2015."

2016 INTERIM RESULTS ANNOUNCEMENT

Reference is made to the announcement of interim results (the "2016 Interim Results Announcement") for the six months ended 30 June 2016 published on 28 July 2016. The Company would like to clarify that the section headed "OTHER INFORMATION – Purchase, sale of redemption of listed securities" as disclosed on page 29 of the 2016 Interim Results Announcement should read as follows:

"Purchase, sale or redemption of listed securities

Save for the redemption of guaranteed notes which are listed on the Singapore Stock Exchange Securities Trading Limited as disclosed in note 16 to the unaudited condensed consolidated financial statements, the Company has not redeemed any of its listed 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."

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF CHINA AUTOMATION GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 18, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provision thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

A handwritten signature in black ink, appearing to read "De Witt Touche Tohmatsu".

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 July 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Continuing operations			
Revenue	3	387,380	768,555
Cost of sales		(314,815)	(500,231)
Gross profit		72,565	268,324
Other income	4	6,393	12,413
Other gains and losses	5	(27,362)	(32,631)
Selling and distribution expenses		(51,537)	(67,215)
Administrative expenses		(95,010)	(103,344)
Research and development expenses		(43,507)	(36,399)
Other expenses		(348)	(241)
Finance costs	6	(26,222)	(61,351)
Share of results of associates		(1,692)	60
Share of results of a joint venture		4,903	936
Loss before taxation		(161,817)	(19,448)
Income tax expense	7	(363)	(16,048)
Loss for the period from continuing operations	8	(162,180)	(35,496)
Discontinued operations			
Profit for the period from discontinued operations	9	–	217,261
(Loss) profit for the period		(162,180)	181,765
Other comprehensive (expense) income for the period (net of tax)			
Items that maybe subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(3,864)	619
Share of translation reserve of a joint venture		340	(269)
		(3,524)	350
Total comprehensive (expense) income for the period		(165,704)	182,115
(Loss) profit for the period attributable to:			
Owners of the Company		(136,899)	186,113
Non-controlling interests		(25,281)	(4,348)
		(162,180)	181,765
Total comprehensive (expense) income attributable to:			
Owners of the Company		(140,423)	186,463
Non-controlling interests		(25,281)	(4,348)
		(165,704)	182,115
(Loss) earnings per share	11		
From continuing and discontinued operations			
Basic and diluted (RMB cents)		(13.34)	18.14
From continuing operations			
Basic and diluted (RMB cents)		(13.34)	(2.68)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	At 30 June 2016 RMB'000 (unaudited)	At 31 December 2015 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	12	657,381	633,423
Deposit for acquisition of property, plant and equipment		11,500	5,223
Prepaid lease payments – non-current portion	13	271,417	136,315
Intangible assets		75,357	81,810
Goodwill		8,890	8,890
Interests in associates		21,400	23,092
Interests in a joint venture		10,676	5,433
Pledged bank deposits		1,216	4,731
Deferred tax assets	14	46,836	32,209
Available-for-sale financial assets		64,217	64,217
		1,168,890	995,343
Current assets			
Prepaid lease payments – current portion	13	4,033	3,434
Inventories	15	744,026	635,131
Trade and bills receivables	16	1,369,999	1,602,558
Other receivables and prepayments	17	209,996	176,954
Pledged bank deposits		43,869	73,576
Bank balances and cash		168,824	601,241
		2,540,747	3,092,894
Current liabilities			
Trade and bills payables	18	465,787	502,410
Other payables, deposits received and accruals	19	241,899	302,928
Dividend payable		6	6
Income tax payable		12,611	12,596
Bank borrowings – due within one year	20	444,971	283,551
Guaranteed notes – due within one year	21	–	424,817
		1,165,274	1,526,308
Net current assets		1,375,473	1,566,586
Total assets less current liabilities		2,544,363	2,561,929

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	At 30 June 2016 RMB'000 (unaudited)	At 31 December 2015 RMB'000 (audited)
Capital and reserves			
Share capital		9,548	9,548
Share premium and reserves		1,623,834	1,763,462
Equity attributable to owners of the Company		1,633,382	1,773,010
Non-controlling interests		122,890	148,171
Total equity		1,756,272	1,921,181
Non-current liabilities			
Deferred tax liabilities		16,640	16,640
Bank borrowings – due after one year	20	155,000	160,000
Guaranteed notes – due after one year	21	195,949	191,358
Long term payable		100,000	100,000
Deferred income	22	320,502	172,750
		788,091	640,748
Total equity and non-current liabilities		2,544,363	2,561,929

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company										Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory surplus reserves RMB'000 (Note)	Contribution from owners RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	
For the six months ended 30 June 2016 (unaudited)											
At 1 January 2016	9,548	648,367	34,666	182,499	619	10,014	4,911	882,386	1,773,010	148,171	1,921,181
Loss for the period	-	-	-	-	-	-	-	(136,899)	(136,899)	(25,281)	(162,180)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(3,864)	-	-	(3,864)	-	(3,864)
Share of translation reserve of a joint venture	-	-	-	-	-	340	-	-	340	-	340
Total comprehensive (expense) income for the period	-	-	-	-	-	(3,524)	-	(136,899)	(140,423)	(25,281)	(165,704)
Recognition of equity-settled share-based payments (Note 28)	-	-	-	-	-	-	795	-	795	-	795
At 30 June 2016	9,548	648,367	34,666	182,499	619	6,490	5,706	745,487	1,633,382	122,890	1,756,272
For the six months ended 30 June 2015 (unaudited)											
At 1 January 2015	9,548	648,367	34,666	165,464	619	11,072	1,735	1,004,535	1,876,006	325,996	2,202,002
Profit (loss) for the period	-	-	-	-	-	-	-	186,113	186,113	(4,348)	181,765
Exchange difference arising on translation of foreign operations	-	-	-	-	-	619	-	-	619	-	619
Share of translation reserve of a joint venture	-	-	-	-	-	(269)	-	-	(269)	-	(269)
Total comprehensive income (expense) for the period	-	-	-	-	-	350	-	186,113	186,463	(4,348)	182,115
Recognition of equity-settled share-based payments (Note 28)	-	-	-	-	-	-	1,588	-	1,588	-	1,588
Derecognised on disposal of a subsidiary (Note 9)	-	-	-	(43,440)	-	-	-	43,440	-	(136,681)	(136,681)
At 30 June 2015	9,548	648,367	34,666	122,024	619	11,422	3,323	1,234,088	2,064,057	184,967	2,249,024

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Operating activities		
Net cash (used in) generated from operating activities	(87,207)	231
Investing activities		
Interest received	997	1,988
Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment	(57,626)	(7,437)
Increase in prepaid lease payment	(137,569)	(33,347)
Development costs paid	–	(15,056)
Proceeds on disposal of property, plant and equipment	1,518	9
Net cash inflow on disposal of a subsidiary	–	765,373
Transaction cost paid for disposal of a subsidiary	(5,000)	(4,197)
Income tax paid for disposal of a subsidiary	–	(21,326)
Receipt of government grants	99,254	32,376
Receipt of relocation compensation	30,800	30,800
Placement of pledged bank deposits	(4,610)	(55,092)
Withdrawal of pledged bank deposits	37,832	70,867
Net cash (used in) generated from investing activities	(34,404)	764,958
Financing activities		
Bank borrowings raised	411,471	247,898
Repayments of bank borrowings	(255,051)	(292,847)
Interest paid	(34,906)	(62,820)
Repayments of guaranteed notes including early redemption premium	(434,291)	(759,282)
Net cash used in financing activities	(312,777)	(867,051)
Net decrease in cash and cash equivalents	(434,388)	(101,862)
Cash and cash equivalents at 1 January	601,241	395,231
Effect of foreign exchange rate changes	1,971	(255)
Cash and cash equivalents at 30 June, represented by bank balances and cash	168,824	293,114

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statement of the Company and its subsidiaries (collectively referred to as the "Group") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34, Interim Financial Reporting. 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 values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

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

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

3. REVENUE AND SEGMENT INFORMATION

The following is an analysis of 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 2016 (unaudited)

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	338,694	48,686	387,380
Segment loss before taxation	(105,375)	(32,753)	(138,128)
Income tax expense	393	(756)	(363)
Segment loss	(104,982)	(33,509)	(138,491)
Unallocated other income			292
Unallocated other gains and losses			(4,928)
Unallocated administrative expenses			(5,377)
Unallocated finance costs			(13,676)
Loss for the period (continuing operations)			(162,180)

Six months ended 30 June 2015 (unaudited)

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	691,948	76,607	768,555
Segment profit (loss) before taxation	85,189	(19,183)	66,006
Income tax expense	(16,048)	–	(16,048)
Segment profit (loss)	69,141	(19,183)	49,958
Unallocated other income			2
Unallocated other gains and losses			(25,933)
Unallocated administrative expenses			(7,592)
Unallocated finance costs			(51,931)
Loss for the period (continuing operations)			(35,496)

All of the segment revenue reported above is from external customers.

There was no inter-segment revenue for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Segment assets		
Petrochemical	3,031,865	3,167,150
Railway	633,670	678,544
Total segment assets	3,665,535	3,845,694
Other assets	44,102	242,543
Consolidated assets	3,709,637	4,088,237
Segment liabilities		
Petrochemical	1,387,008	1,183,360
Railway	360,922	345,244
Total segment liabilities	1,747,930	1,528,604
Guaranteed notes	195,949	616,175
Other liabilities	9,486	22,277
Consolidated liabilities	1,953,365	2,167,056

4. OTHER INCOME

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Other income relating to continuing operations includes:		
Bank interest income	997	1,835

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Other (gains) losses from continuing operations comprise:		
Net foreign exchange losses (Note)	3,855	15,648
(Gain) loss on disposal of property, plant and equipment	(39)	5
Early redemption premium of guaranteed notes (Note 21)	5,342	14,220
Loss on embedded derivative financial asset (Note 23)	–	47
Allowance on bad and doubtful debts	14,413	2,711
Allowance on inventories	3,791	–
	27,362	32,631

Note: The amount includes the exchange loss relating to the translation of guaranteed notes from United States Dollar ("US\$") to RMB amounting to RMB4,928,000 during the current interim period (six months ended 30 June 2015: RMB11,220,000).

6. FINANCE COSTS

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Financial costs relating to continuing operations comprise:		
Interest on bank borrowings	14,796	9,420
Interest on guaranteed notes	13,676	51,931
Interest on long term payable	600	–
	29,072	61,351
Less: amount capitalised under construction in progress	(2,850)	–
	26,222	61,351

During the current interim period, interests capitalised of RMB2,850,000 arose from bank borrowings specifically for the purpose of obtaining qualifying assets with a capitalisation rate of 5.70% per annum.

No interest was capitalised during the prior interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

7. INCOME TAXES RELATING TO CONTINUING OPERATIONS

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Current tax charge of continuing operations comprises:		
PRC enterprise income tax	14,979	14,017
Hong Kong Profits Tax	–	2,193
Other jurisdictions	11	49
	14,990	16,259
Deferred tax credit	(14,627)	(211)
	363	16,048

Certain subsidiaries of the Company operating in the PRC are eligible for tax holiday and concession. The tax holiday and concession are in the form of two years tax exemption from the first profit-making year, followed by 50% reduction of the applicable tax rate in the following three years.

The negative effective tax rates for the current and prior interim periods are mainly attributable to the current 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.

8. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

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

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Depreciation of property, plant and equipment	22,925	20,530
Amortisation of intangible assets included in:		
– Cost of sales	6,453	5,905
– Administrative expenses	–	3,894
	6,453	9,799
Release of prepaid lease payment	1,868	1,550
Operating lease rentals in respect of rented premises	9,371	6,149

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

9. DISCONTINUED OPERATIONS

On 26 May 2015, the Group completed the disposal of its 76.7% equity interest in Beijing Jiaoda Microunion Technology Company Limited (“Beijing Jiaoda Microunion”) at a cash consideration of RMB811,650,000. Beijing Jiaoda Microunion engages in the design, development and sales of railway signaling systems in the PRC.

The results of the discontinued operations included in the profit for the prior interim period are set out below.

Profit for the period from discontinued operations

	Period from 1 January 2015 to 26 May 2015 RMB'000 (unaudited)
Revenue	67,949
Cost of sales	(33,715)
Gross profit	34,234
Other income	9,681
Other gains and losses	658
Selling and distribution expenses	(3,804)
Administrative expenses	(14,797)
Research and development expenses	(6,282)
Other expenses	(1,566)
Finance costs	(114)
Profit before taxation	18,010
Income tax expense	(2,684)
	15,326
Gain recognised on disposal of a subsidiary	269,947
Attributable income tax expense	(68,012)
Profit for the period from discontinued operations	217,261
– Attributable to owners of the Company	213,690

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

9. DISCONTINUED OPERATIONS (CONTINUED)

Cash flows from discontinued operations

	Period from 1 January 2015 to 26 May 2015 RMB'000 (unaudited)
Net cash inflows from operating activities	1,872
Net cash outflows from investing activities	(20,412)
Net cash outflows from financing activities	(47,412)
Net cash outflows	(65,952)

The assets and liabilities of Beijing Jiaoda Microunion derecognised at the date of disposal were as follows:

	RMB'000
Non-current assets	
Property, plant and equipment	8,681
Intangible assets	260,738
Deferred tax assets	24,961
	294,380
Current assets	
Inventories	76,467
Trade and bills receivables	236,402
Other receivables and prepayments	15,466
Amounts due from customers for contract work	44,951
Pledged bank deposits	29,145
Bank balances and cash	46,277
	448,708
Current liabilities	
Trade and bills payables	78,619
Other payables, deposits received and accruals	42,817
Income tax payable	533
	121,969
Non-current liabilities	
Deferred tax liabilities	34,504
Net assets disposed of	586,615

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

9. DISCONTINUED OPERATIONS (CONTINUED)

Gain on disposal of a subsidiary

	RMB'000
Consideration received	811,650
Net assets disposed of	(586,615)
Non-controlling interests	136,681
Goodwill derecognised on the disposal	(72,777)
Transaction cost of the disposal	(18,992)
Gain on the disposal before taxation	269,947

Net cash inflow on disposal of a subsidiary

	RMB'000
Consideration received	811,650
Less: cash and cash equivalent balances disposed of	(46,277)
	765,373

10. DIVIDENDS

No dividends have been declared in the current or prior interim periods.

The directors of the Company (the "Directors") do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

11. (LOSS) EARNINGS PER SHARE

	Six months ended 30 June	
	2016 RMB cents (unaudited)	2015 RMB cents (unaudited)
Basic/diluted (loss) earnings per share		
From continuing operations	(13.34)	(2.68)
From discontinued operations	-	20.82
Total basic/diluted (loss) earnings per share	(13.34)	18.14

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

11. (LOSS) EARNINGS PER SHARE (CONTINUED)

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

(Loss) earnings	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Attributable to the owners of the Company:		
(Loss) profit for the period	(136,899)	186,113
Less: profit for the period from discontinued operations	–	(213,690)
Loss used for the purposes of basic and diluted loss per share from continuing operations	(136,899)	(27,577)
Weighted average number of shares	Six months ended 30 June	
	2016 '000 shares (unaudited)	2015 '000 shares (unaudited)
Number of ordinary shares for the purpose of basic (loss) earnings per share	1,026,264	1,026,264

The calculation of diluted earnings per share did not take into account the share options of the Company issued on 24 July 2014 (Note 28) because the exercise price of the share options was higher than the average market price of the Company's shares throughout both the current and the prior interim periods.

12. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group incurred approximately RMB36,634,000 on the construction of its new factory plant, office premises and building improvements (six months ended 30 June 2015: RMB2,540,000).

In addition, the Group purchased property, plant and equipment amounting to RMB11,728,000 (six months ended 30 June 2015: RMB12,242,000) from third parties.

13. PREPAID LEASE PAYMENTS

During the current interim period, the Group acquired land use rights amounting to RMB137,569,000 (six months ended 30 June 2015: RMB33,347,000).

As at 30 June 2016, The Group was in the process of obtaining the property certificates of the leasehold land use rights with a carrying value of RMB137,419,000 from the relevant authorities.

14. DEFERRED TAX ASSETS

During the current interim period, deferred tax asset amounting to approximately RMB14,649,000 was recognised in relation to deductible temporary differences arising from the receipt of government grants relating to assets. Details of the government grants recognised in the non-current liabilities of "deferred income" are set out in Note 22.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

15. INVENTORIES

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Raw materials	557,834	486,822
Work in progress	110,623	101,119
Finished goods	75,569	47,190
	744,026	635,131

16. TRADE AND BILLS RECEIVABLES

The normal credit period except for the retention receivables granted to the Group's customers is 90 to 365 days.

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Trade receivables	1,363,047	1,530,466
Less: impairment losses on trade receivables	(193,801)	(178,484)
	1,169,246	1,351,982
Bills receivable	200,753	250,576
	1,369,999	1,602,558

The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
0 – 90 days	340,580	646,311
91 – 180 days	250,878	335,337
181 – 365 days	396,793	258,571
1 – 2 years	381,748	345,980
2 – 3 years	–	16,359
	1,369,999	1,602,558

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. OTHER RECEIVABLES AND PREPAYMENTS

An analysis of other receivables and prepayments is as follows:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Prepayments to suppliers	76,445	49,250
Other receivables	137,716	131,849
Less: impairment losses on other receivables	(4,165)	(4,145)
	209,996	176,954

18. TRADE AND BILLS PAYABLES

The average credit period on purchases is 90 to 180 days. The following is an aged analysis of trade and bills payables based on the invoice date at the end of the reporting period:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
0 – 90 days	168,906	242,409
91 – 180 days	128,731	143,222
181 – 365 days	94,851	49,529
1 – 2 years	50,536	50,779
Over 2 years	22,763	16,471
	465,787	502,410

19. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Advance from customers	76,829	43,358
Accrued payroll and welfare	19,093	51,604
Interest payable	1,601	7,435
Other deposits, payables and accruals	71,952	100,629
Construction costs payables	56,303	62,140
Transaction costs payable for disposal of a subsidiary	7,237	12,237
Other tax payable	8,884	25,525
	241,899	302,928

20. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB411,471,000 (six months ended 30 June 2015: RMB247,898,000), and repaid bank borrowings amounting to approximately RMB255,051,000 (six months ended 30 June 2015: RMB292,847,000). The borrowings carry interest at market rates of 2.36% to 6.60% (six months ended 30 June 2015: 2.25% to 7.20%) per annum.

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 27.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

21. GUARANTEED NOTES

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
US\$200,000,000 guaranteed notes due 2016 (the "2016 Guaranteed Notes")	–	424,817
US\$30,000,000 guaranteed notes due 2018 (the "2018 Guaranteed Notes")	195,949	191,358
	195,949	616,175

On 7 January 2016, the Company early redeemed 64% of the outstanding principal amount of the 2016 Guaranteed Notes of US\$42,000,000 (equivalent to approximately RMB275,713,000) at a premium of US\$813,750 (equivalent to approximately RMB5,342,000) and repaid the attributable accrued and unpaid interest of US\$732,500 (equivalent to approximately RMB4,809,000). The premium of RMB5,342,000 was expensed and included in "other gains and losses" in the condensed consolidated statement of profit or loss and other comprehensive income (Note 5).

On the maturity date of 20 April 2016, the Company repaid the remaining outstanding principal amount of the 2016 Guaranteed Notes of US\$23,610,000 (equivalent to approximately RMB153,236,000) and all the remaining accrued and unpaid interest of US\$771,500 (equivalent to approximately RMB5,007,000).

22. DEFERRED INCOME

	Government grants related to assets RMB'000 (Note a)	Government grants related to income RMB'000 (Note b)	Relocation compensation RMB'000 (Note c)	Total RMB'000
At 31 December 2015	118,948	3,802	50,000	172,750
Addition	99,254	1,594	50,000	150,848
Released to profit or loss	(1,596)	(1,500)	–	(3,096)
At 30 June 2016	216,606	3,896	100,000	320,502

Notes:

- (a) Deferred income arising from government grant relating to assets represents the government subsidies obtained in relation to the purchase of the land use right and the infrastructure construction, which was included in the condensed consolidated statements of financial position as deferred income and credited to the condensed consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected useful life of the relevant depreciable assets;
- (b) Deferred income arising from government grant relating to income represents the government subsidies obtained as compensation for the expenses on technology development when the grants are received and the corresponding research activities have not been accomplished, which was included in deferred income and recognised in profit or loss when the research and development expenses has already been fully incurred.
- (c) On 21 May 2015, the Company's subsidiary, Wuzhong Instrument Company Limited has 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 RMB200,279,000. The amount of compensation attributable to losses of the land use right, property, plant and unmovable equipment, related expenses, losses from production suspension incurred during the relocation. During the current interim period, the relocation activities have not yet commenced. Accordingly, the aggregate compensation income of RMB100,000,000 received in advance is recorded as deferred income and will be recognised as other income based on the relocation progress subsequently.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis is set out below.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2016	31 December 2015				
Early redemption right of the 2018 Guaranteed Notes insignificant at initial recognition, therefore not separately accounted for.	-	-	Level 3	The fair value of the early redemption right is calculated based on option pricing model with key inputs which are the difference of the quoted price in an over-the-counter-market of the 2018 Guaranteed Notes at extracted from Bloomberg US\$97.75 (31 December 2015:US\$99.88) and the fair value of liability component of the notes which was based on discounted cash flows using a discount rate of 8.17% as at 30 June 2016 (31 December 2015: 6.43%).	Discount rate of the liability component	Discount rate of the liability component (Note)
Early redemption right of the 2016 Guaranteed Notes classified as embedded derivative financial asset in the consolidated statement of financial position.	N/A	-	Level 3	The fair value of the embedded derivative financial asset is calculated based on option pricing model with key inputs which are the difference of the quoted market price of the 2016 Guaranteed Notes at US\$100.92 extracted from Bloomberg and the fair value of liability component of the notes which was based on discounted cash flows using a discount rate of 6.43% as at 31 December 2015.	Discount rate of the liability component	Discount rate of the liability component (Note)

Note: An increase in the discount rate used in isolation would result in a decrease in the fair value measurement of the early redemption right, and vice versa.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Except as detailed in the below table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

	30 June 2016		31 December 2015	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
The 2016 Guaranteed Notes – liability component	–	–	424,817	429,943
The 2018 Guaranteed Notes – liability component	195,949	194,460	191,358	194,564

The fair value of the financial liabilities included in the level 3 category above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

24. OPERATING LEASES

The Group as lessee

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

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Within one year	14,882	15,000
In the second to fifth year inclusive	10,652	5,951
	25,534	20,951

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

25. CAPITAL COMMITMENTS

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	88,607	78,333

26. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Salaries and other benefits	7,805	8,087
Retirement benefit scheme contributions	271	306
Equity-settled share-based payments	153	329
	8,229	8,722

27. PLEDGE OF ASSETS

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

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Buildings	230,274	244,430
Land use rights	69,958	100,992
Inventories	95,334	59,955
Bills receivables	30,000	4,780
Pledged bank deposits	45,085	78,307
	470,651	488,464

The amounts disclosed above includes the assets pledged at 30 June 2016 to obtain corporate guarantees from an independent third party for available banking facilities of RMB100,000,000 (31 December 2015: RMB70,000,000) granted to the Group. The aggregate carrying amount of these pledged assets are buildings amounted to approximately RMB26,399,000 (31 December 2015: RMB26,976,000) and land use right amounted to approximately RMB7,415,000 (31 December 2015: RMB7,532,000). In addition, the Group paid approximately RMB870,000 to the independent third party for the corporate guarantees provided during the current interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

28. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

At 30 June 2016, the number of shares in respect of which options had been granted and remained outstanding was 102,626,000 (31 December 2015: 102,626,000), representing 10% (31 December 2015: 10%) of the shares of the Company in issue at that date. There is no share option lapsed during the current and prior interim periods.

The following table disclose details of the Company's share options held by the grantees and movements in such holdings under the share option scheme during the interim period:

	Date of grant	Vesting period	Exercise period	Exercise price	Number of options ('000)			Outstanding at 30 June 2016
					Outstanding At 31 December 2015	Granted during the period	Exercised/lapsed during the period	
Tranche 1	25 July 2014	25 July 2014 to 24 July 2015	25 July 2015 to 24 July 2018	HK\$1.60	34,209	-	-	34,209
Tranche 2	25 July 2014	25 July 2014 to 24 July 2016	25 July 2016 to 24 July 2018	HK\$1.60	34,209	-	-	34,209
Tranche 3	25 July 2014	25 July 2014 to 24 July 2017	25 July 2017 to 24 July 2018	HK\$1.60	34,208	-	-	34,208
					102,626	-	-	102,626
Exercisable at the end of the reporting period								34,209
Weighted average exercise price					HK\$1.60	-	-	HK\$1.60

During the current interim period, the Group recognised share-based expenses of RMB795,000 (six months ended 30 June 2015: RMB1,588,000).

The offers

The Company was informed by Mr. Xuan Rui Guo, the chairman and an executive director of the Company ("Mr. Xuan") that on 23 June 2016, Mr. Xuan and Araco Investment Limited, a company incorporated in the British Virgin Islands ("BVI") and indirectly wholly-owned by Mr. Xuan (the "Offeror") entered into a sale and purchase agreement ("SPA") with, among others, Consen Group Holding Inc., the immediate holding company of the Company incorporated in the BVI ("Consen Group") pursuant to which the Offeror agreed to acquire 457,933,541 shares of the Company from Consen Group, representing approximately 44.62% equity interest of the Company.

Completion of the SPA took place on 24 June 2016, immediately upon which, Mr. Xuan and the Offeror became collectively interested in approximately 44.72% of the voting rights in the Company. Accordingly, pursuant to the Hong Kong Code on Takeovers and Mergers, Mr. Xuan, through the Offeror, is required to make a conditional mandatory cash offer for all the issued shares of the Company which are not already owned by the Offeror and parties acting in concert with any of them (the "Concert Group"), and to cancel all outstanding share options of the Company (other than those held by the Concert Group) (the "Offers").

Details of the Offers are set out in the announcement dated 24 June 2016 and the composite offer and response document which are expected to be jointly issued and despatched by the Company and the Offeror in early August 2016. As at 30 June 2016, the aforementioned share option remains outstanding and valid.

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Xuan Rui Guo (Chairman)
Mr. Kuang Jian Ping (Chief Executive Officer)
Mr. Huang Zhi Yong

Independent Non-executive Directors:

Mr. Wang Tai Wen
Mr. Sui Yong Bin
Mr. Ng Wing Fai

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

Mr. Ng Wing Fai (Chairman)
Mr. Wang Tai Wen
Mr. Sui Yong Bin

REMUNERATION COMMITTEE

Mr. Wang Tai Wen (Chairman)
Mr. Sui Yong Bin
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Huang Zhi Yong

NOMINATION COMMITTEE

Mr. Sui Yong Bin (Chairman)
Mr. Wang Tai Wen
Mr. Ng Wing Fai
Mr. Xuan Rui Guo
Mr. Kuang Jian Ping

SENIOR MANAGEMENT

Mr. Cui Da Chao
Mr. Zhou Zheng Qiang
Mr. Duan Min
Mr. Xiao Bao Di
Ms. Dong Yan
Mr. Chen Yong
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Ms. Wang Yan Mei
Mr. Tian Lei
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The Hongkong and Shanghai Banking Corporation Limited

PRC:

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Bank of Beijing
Bank of China
Bank of Jiangsu
China Merchants Bank
HSBC Bank (China) Company Limited
Hua Xia Bank
Industrial and Commercial Bank of China
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