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

Interim Report 2018

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Revenue

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

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

Turnover analysis by operating segment

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

Turnover analysis by the type of goods and services rendered

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

Note: Control valve system sales included related services income.

System sales and related services to petrochemical industries

Safety systems and engineering design services

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

Control valves

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

Provision of engineering and maintenance services

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

Distribution of equipment

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

Hospital Services

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

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

Gross profit

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

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

Gross profit margin analysis by the type of goods and services

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

Note: Control value system sales included related services income.

Gross profit margin of system sales and engineering design services in relation to petrochemical industries

Gross profit margin of safety systems and engineering design services

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

Gross profit margin of control valves

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

Gross profit margin for the provision of engineering and maintenance services

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

Gross profit margin of hospital services

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

Other income

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

Other losses

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

Selling and distribution expenses

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

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

Administrative expenses

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

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

Research and development expenses

Research and development expenses for the six months ended 30 June 2018 were RMB28.6 million (1H 2017: RMB31.8 million). The research and development projects undertaken during the period were mainly related to (i) development of high-end control valves in response to the preferential policies regarding localisation enacted by the Chinese Government; (ii) core hardware for turbine machinery control systems.

Finance costs

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

Income tax expenses/(credit)

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

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

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

Loss for the period from continuing operations

The Group recorded loss attributable to equity holders of the Company at RMB82.2 million for the six months ended 30 June 2018 (1H 2017: RMB146.2 million).

DISCONTINUED OPERATIONS

The discontinued operations for the six month ended 30 June 2017 were mainly related to the disposal of a 51% equity interest in Nanjing Huashi Electronics Scientific Company Limited and Nanjing Huashi Power Equipment Company Limited which are engaged in the railway traction and auxiliary power supply related systems and equipment business. The disposal completed on 11 July 2017 and 27 September 2017 respectively. The Group recorded losses for the discontinued operations amounting to RMB16.4 million for the six months ended 30 June 2017.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

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

GEARING POSITION

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

CONTINGENT LIABILITIES

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

FUTURE OUTLOOK

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

For the petrochemical segment, the Group will continue its efforts in business development of control valves so as to maintain its overall competitive advantages in production capability, sales and marketing, and internal operational efficiency. To capture opportunities emerged from localisation of industrial products in China, the Group will continue its efforts in research and development to develop high-end and diversified control valves. Meanwhile, the Group will seek to increase the revenue contribution from its recurring engineering and maintenance services by its enhanced service teams and through provision of more value-added services.

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

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

The Company is committed to the establishment of good corporate governance practices and procedures which serve as an important element of risk management throughout the growth and expansion of the Company. The Company emphasises on maintaining and carrying out sound, solid and effective corporate governance principles and structures. The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the applicable code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2018, save and except for the following deviation:

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

THE BOARD

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

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board held two meetings to date in 2018.

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 2018 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 2018 for the Board's approval) and the adequacy of resources, qualifications and experience of the staff of the Company's accounting and financial reporting function. Its current members include:

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

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 2018 to review the board composition, the retirement of directors by rotation, the re-appointment of retiring directors at the 2018 Annual General Meeting, and to assess the independence of Independent Non-executive Directors. Its current members include:

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

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 2018 to review and approve remuneration packages of Executive Directors and senior management of the Company. Its current members include:

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

* *Independent Non-executive Director*

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry with all of the Directors, the Directors confirmed that they had been in compliance with the required standard set out in the Model Code during the six months ended 30 June 2018.

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 2018, the Group continued to adopt a proactive and open approach while conducting extensive information exchanges and communication with investors, so that they could have better knowledge and understanding of the Group's future development strategy, operational situation and financial performance. Such efforts enhanced the transparency of the Group in the capital market and offered strong support to the Group's investors to make informed and reasonable investment decisions.

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

– Interim results announcement

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

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

– Prompt response to investor enquiries

– The Group's website

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

REVIEW OF INTERIM RESULTS

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

INTERIM DIVIDEND

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	**Capacity/nature of interest**	**No. of shares interested** (Note 1)	**Approximate percentage of shareholding in the Company**
Mr. Xuan Rui Guo	Beneficial owner	1,000,000 (L)	0.10%
	Interest of controlled corporation (Note 2)	515,696,164 (L)	50.25%

Save as disclosed above and disclosed under the paragraph headed "Share Option Scheme" below, as at 30 June 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, to the best knowledge of the Directors, the following persons, other than the Directors and chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

		Shares		Underlying Shares	
Name of substantial shareholder	**Capacity/nature of interest**	**No. of Shares interested** (Note 1)	**Approximate percentage of shareholding in the Company**	**No. of underlying Shares interested** (Note 1)	**Approximate percentage of shareholding in the Company**
Araco Investment Limited (Notes 2,6)	Beneficial owner	515,696,164 (L)	50.25%	–	–
Brightex Enterprises Limited (Note 2)	Interest of controlled corporation	515,696,164 (L)	50.25%	–	–
Ascendent Automation (Cayman) Limited (Note 4)	Beneficial owner	248,235,132 (L)	24.19%	–	–
Ascendent Capital Partners II, L.P. (Note 4)	Interest of controlled corporation	248,235,132 (L)	24.19%	–	–
Ascendent Capital Partners II, GP, L.P. (Note 4)	Interest of controlled corporation	248,235,132 (L)	24.19%	–	–
Ascendent Capital Partners II GP Limited (Note 4)	Interest of controlled corporation	248,235,132 (L)	24.19%	–	–
Ascendent Healthcare (Cayman) Limited (Notes 3, 5)	Beneficial owner	–	–	634,951,127 (L)	61.87%
Ascendent Capital Partners I, L.P. (Notes 3, 5)	Interest of controlled corporation	–	–	634,951,127 (L)	61.87%
Ascendent Capital Partners I, GP, L.P. (Notes 3, 5)	Interest of controlled corporation	–	–	634,951,127 (L)	61.87%
Ascendent Capital Partners I GP Limited (Notes 3, 5)	Interest of controlled corporation	–	–	634,951,127 (L)	61.87%
Mr. Meng Liang (Notes 3, 4, 5)	Interest of controlled corporation	248,235,132 (L)	24.19%	634,951,127 (L)	61.87%
Export-Import Bank of China (Note 6)	Person having a security interest in shares	300,000,000(L)	29.23%	–	–

Notes: 1. The letter "L" denotes the person's long position in the shares of the Company (the "Shares") and underlying Shares.

2. Araco Investment Limited ("Araco") is a wholly-owned subsidiary of Brightex Enterprises Limited ("Brightex") which is in turn is wholly-owned by Mr. Xuan Rui Guo ("Mr. Xuan"). By virtue of the SFO, Brightex and Mr. Xuan are deemed to be interested in 515,696,164 Shares in which Araco is interested.

3. On 26 July 2017, the Company issued convertible bonds ("Convertible Bonds") to Ascendent Healthcare (Cayman) Ltd. ("Ascendent Healthcare") in the principal amount of RMB675,588,000 in settlement of the consideration for the acquisition of 60% equity interest in Etern Group Ltd., an investment holding company holding 98% equity interest in a company principally engaged in hospital business in the PRC (the "Acquisition"). Upon full conversion of the Convertible Bonds based on the initial conversion price of RMB1.0640 per conversion share (subject to adjustments), 634,951,127 Shares will be allotted and issued to Ascendent Healthcare. Further details of the Acquisition and the Convertible Bonds are set out in the circular of the Company dated 23 June 2017.

4. AACL is a wholly-owned subsidiary of Ascendent Capital Partners II, L.P. ("ACP II"). The general partner of ACP II is Ascendent Capital Partners II GP, L.P. ("ACP GP II") and its general partner is Ascendent Capital Partners II GP Limited ("ACP GP Ltd II"). ACP GP II and ACP GP Ltd II are wholly-owned by Mr. Meng Liang ("Mr. Meng"). By virtue of the SFO, ACP II, ACP GP II, ACP GP Ltd II and Mr. Meng are deemed to be interested in 248,235,132 Shares in which AACL is interested.

5. Ascendent Healthcare is a wholly-owned subsidiary of Ascendent Capital Partners I, L.P. ("ACP I"). The general partner of ACP I is Ascendent Capital Partners I GP, L.P. ("ACP GP I") and its general partner is Ascendent Capital Partners I GP Limited ("ACP GP Ltd I"). ACP GP I and ACP GP Ltd I are wholly-owned by Mr. Meng. By virtue of the SFO, ACP I, ACP GP I, ACP GP Ltd I and Mr. Meng are deemed to be interested in 634,951,127 underlying Shares in which Ascendent Healthcare is interested.

6. The Company has been informed by its controlling shareholder that, as at 30 June 2018, Araco has pledged 300,000,000 Shares to Export-Import Bank of China.

Save as disclosed above, as at 30 June 2018, the Directors were not aware of any persons, other than a Director or a chief executive of the Company, who had or were deemed or taken to have interests or short positions in shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered in the registered kept by the Company under the SFO.

SHARE OPTION SCHEME

The share option scheme adopted by the Company on 16 June 2007 had expired on 15 June 2017 and the Company has adopted the new share option scheme (the "Scheme") pursuant to an ordinary resolution passed on the annual general meeting held on 29 May 2018 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 or any entity in which the Group holds an equity interest; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive Directors of each member of the Group or any entity in which the Group holds an equity interest; (iii) any consultants, professional and other advisers to each member of the Group or any entity in which the Group holds an equity interest (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives 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 29 May 2018.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the Scheme (i.e. not exceeding 102,626,372 shares).

The number of shares issued and to be issued upon exercise of the options granted to any participant under the Scheme and any other schemes of the Company (or its subsidiary) (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of relevant class of securities of the Company (or its subsidiary) in issue, without prior approval from the Company's shareholders.

Where the Board proposes to grant any options to substantial shareholders of the Company or independent non-executive Directors or any of their respective associates which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted under the Scheme and any other share option schemes of the Company (or its subsidiary) (including options exercised, cancelled and outstanding) to him in any 12-month period up to and including the date of such grant (i) representing in aggregate more than 0.1% of the relevant class of securities in issue; and (ii) (where the securities are listed on the Stock Exchange) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000, such proposed grant of options must be approved by the Company's shareholders in 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. The exercise price is determined by the Directors of the Company, and shall be at least the highest of (i) the closing price of a share of the Company as on the offer date, which must be a business day; (ii) a price being the average of the closing price of the shares of the Company for the five business days immediately preceding the offer date; and (iii) the nominal value of the a share of the Company.

As at 30 June 2018, no options were granted.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF CHINA AUTOMATION GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 13 to 18, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Continuing operations			
Revenue from goods and services	4	**809,506**	412,668
Cost of sales		**(609,264)**	(378,153)
Gross profit		**200,242**	34,515
Other income	5	**14,280**	7,841
Other gains and losses	6	**(67,906)**	(2,078)
Impairment losses, net of reversal		**(16,383)**	–
Selling and distribution expenses		**(44,426)**	(43,188)
Administrative expenses		**(93,944)**	(83,728)
Research and development expenses		**(28,590)**	(31,776)
Other expenses		**(497)**	(393)
Finance costs	7	**(27,937)**	(28,931)
Share of results of associates		**(966)**	337
Loss before taxation		**(66,127)**	(147,401)
Income tax (expense) credit	8	**(16,059)**	1,215
Loss for the period from continuing operations	9	**(82,186)**	(146,186)
Discontinued operations			
Loss for the period from discontinued operations	10(i)	**–**	(16,379)
Loss for the period		**(82,186)**	(162,565)
Other comprehensive expense for the period, net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value loss on financial liabilities designated as at fair value through profit or loss attributable to changes in credit risk		**(3,000)**	–
		(3,000)	–
Items that maybe reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**1,886**	(3,969)
		1,886	(3,969)
Other comprehensive expense for the period		**(1,114)**	(3,969)
Total comprehensive expense for the period		**(83,300)**	(166,534)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Note	**Six months ended 30 June**	
		2018	2017
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Loss for the period attributable to:			
Owners of the Company		**(100,521)**	(154,793)
Non-controlling interests		**18,335**	(7,772)
		(82,186)	(162,565)
Total comprehensive expense attributable to:			
Owners of the Company		**(101,635)**	(158,762)
Non-controlling interests		**18,335**	(7,772)
		(83,300)	(166,534)
Loss per share	12		
From continuing and discontinued operations			
Basic and diluted (RMB cents)		**(9.80)**	(15.08)
From continuing operations			
Basic and diluted (RMB cents)		**(9.80)**	(14.26)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	13	933,541	923,516
Deposit for acquisition of property, plant and equipment		31,497	30,937
Prepaid lease payments – non-current portion	14	272,585	256,998
Intangible assets	14	251,260	249,136
Goodwill		445,500	445,500
Interests in associates		18,370	19,336
Equity instruments at fair value through other comprehensive income		27,153	–
Available-for-sale financial assets		–	26,953
Pledged bank deposits		536	119
Deferred tax assets		87,061	79,689
		2,067,503	2,032,184
Current assets			
Prepaid lease payments – current portion	14	7,190	6,804
Inventories	15	408,197	425,992
Trade and bills receivables	16	992,019	1,022,907
Contract assets	17	40,850	–
Other receivables and prepayments	18	273,603	165,766
Available-for-sale financial assets		–	31,000
Financial assets at fair value through profit or loss		1,980	–
Pledged bank deposits		38,285	38,284
Bank balances and cash		391,814	308,932
		2,153,938	1,999,685
Current liabilities			
Trade and bills payables	19	568,976	492,441
Other payables, deposits received and accruals	20	221,070	337,514
Contract liabilities		91,539	–
Dividend payable		1,206	2,305
Income tax payable		36,923	45,898
Bank borrowings – due within one year	21	309,100	304,947
Guaranteed notes – due within one year		157,888	155,549
		1,386,702	1,338,654
Net current assets		767,236	661,031
Total assets less current liabilities		2,834,739	2,693,215

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	**30 June 2018 RMB'000 (unaudited)**	31 December 2017 RMB'000 (audited)
Capital and reserves			
Share capital		**9,548**	9,548
Share premium and reserves		**1,069,237**	1,170,872
Equity attributable to owners of the Company		**1,078,785**	1,180,420
Non-controlling interests		**200,586**	188,179
Total equity		**1,279,371**	1,368,599
Non-current liabilities			
Deferred tax liabilities		**60,649**	66,056
Bank borrowings – due after one year	21	**85,000**	110,000
Corporate bonds		**199,220**	196,697
Convertible bonds	22	**631,426**	560,556
Other non-current liabilities	23	**579,073**	391,307
		1,555,368	1,324,616
Total equity and non-current liabilities		**2,834,739**	2,693,215

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory surplus reserves RMB'000	Contribution from owners RMB'000	Translation reserve RMB'000	FVTOCI reserve RMB'000	Convertible bonds reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
For the six months ended 30 June 2018 (unaudited)												
At 31 December 2017 (audited)	9,548	648,367	34,666	276,341	1,503	14,271	–	–	195,724	1,180,420	188,179	1,368,599
Adjustments (see note 2)	–	–	–	–	–	–	(22,964)	318	22,646	–	–	–
At 1 January 2018 (restated)	9,548	648,367	34,666	276,341	1,503	14,271	(22,964)	318	218,370	1,180,420	188,179	1,368,599
Loss (profit) for the period	–	–	–	–	–	–	–	–	(100,521)	(100,521)	18,335	(82,186)
Exchange differences on translation of foreign operations	–	–	–	–	–	1,886	–	–	–	1,886	–	1,886
Fair value adjustment attributable to changes in the credit risk of the liability	–	–	–	–	–	–	–	(3,000)	–	(3,000)	–	(3,000)
Total comprehensive income (expense) for the period	–	–	–	–	–	1,886	–	(3,000)	(100,521)	(101,635)	18,335	(83,300)
Dividend declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(5,928)	(5,928)
At 30 June 2018 (unaudited)	9,548	648,367	34,666	276,341	1,503	16,157	(22,964)	(2,682)	117,849	1,078,785	200,586	1,279,371

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory surplus reserves RMB'000	Contribution from owners RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
For the six months ended 30 June 2017 (unaudited)										
At 1 January 2017	9,548	649,251	34,666	276,173	619	13,307	404,076	1,387,640	125,031	1,512,671
Loss for the period	–	–	–	–	–	–	(154,793)	(154,793)	(7,772)	(162,565)
Exchange differences on translation of foreign operations	–	–	–	–	–	(3,969)	–	(3,969)	–	(3,969)
Total comprehensive expense for the period	–	–	–	–	–	(3,969)	(154,793)	(158,762)	(7,772)	(166,534)
Derecognised on disposal of a subsidiary	–	–	–	(4,188)	–	–	4,188	–	–	–
At 30 June 2017 (unaudited)	9,548	649,251	34,666	9,338	619	9,338	253,471	1,228,878	117,259	1,346,137

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Operating activities			
Net cash generated from (used in) operating activities		**23,148**	(37,586)
Investing activities			
Interest received		**895**	366
Dividend received from available-for-sale financial assets		**–**	2,008
Proceeds on disposal of available-for-sale financial assets		**–**	7,832
Proceeds on disposal of property, plant and equipment		**749**	533
Investment in equity instruments at fair value through other comprehensive income		**(200)**	–
Deposits received on disposal of certain subsidiaries classified as held for sale	10(ii)	**–**	72,404
Net cash inflow on completed disposal of a subsidiary classified as held for sale	10(iii)	**–**	3,825
Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment		**(46,339)**	(43,948)
Payments for intangible assets		**(10,021)**	–
Addition of prepaid lease payment		**(19,305)**	–
Receipt of government grants		**300**	–
Receipt of relocation compensation		**40,000**	42,315
Investments in national debt		**(37,085)**	–
Investments in financial assets at fair value through profit or loss		**(373,980)**	–
Redemption of financial assets at fair value through profit or loss		**403,489**	–
Withdrawal of pledged bank deposits		**3,498**	24,536
Placement of pledged bank deposits		**(3,916)**	(20,004)
Net cash (used in) generated from investing activities		**(41,915)**	89,867
Financing activities			
Bank borrowings raised		**98,000**	143,845
Other borrowings raised		**–**	35,000
Repayments of bank borrowings		**(119,700)**	(190,770)
Long term payable raised		**150,000**	–
Interest paid		**(20,168)**	(22,361)
Dividends paid to non-controlling shareholders		**(7,027)**	–
Net cash generated from (used in) financing activities		**101,105**	(34,286)
Net increase in cash and cash equivalents		**82,338**	17,995
Cash and cash equivalents at 1 January		**308,932**	179,113
Effect of foreign exchange rate changes		**544**	(927)
Cash and cash equivalents at 30 June, represented by bank balances and cash		**391,814**	196,181

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

Application of new and amendments to IFRSs

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources:

- ***Sales of goods***

  Revenue from sale of goods is recognised at a point in time when the products has been delivered to the customer. The customer has accepted the products and collectability of the related receivables is reasonably assured.

- ***Provision of services***

  Revenue from design and consulting service is recognised over time due to the Group's performance creates and enhances an asset that the customer controls as the Group performs.

  Revenue from other services is recognised at a point in time when the service is rendered and the customer has received, since only by that time the Group has a present right to payment for the services performed.

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

2.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

2.1.1 Key changes in accounting policies resulting from application of IFRS 15 – continued

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an assets that the customer controls as the Group perform; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method
The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Warranties
The customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with IAS37 Provisions. Contingent Liabilities and Contingent Assets unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

2.1.2 Summary of effects arising from initial application of IFRS 15

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

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

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

Notes:

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

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

The following table summarises the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

2.1.2 Summary of effects arising from initial application of IFRS 15 – continued

Impact on the condensed consolidated statement of financial position

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Current Assets			
Trade and bills receivables	992,019	40,850	1,032,869
Contract assets	40,850	(40,850)	–
Current Liabilities			
Other payables, deposits received and accruals	221,070	91,539	312,609
Contract liabilities	91,539	(91,539)	–

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

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

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

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

2.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 – continued

Classification and measurement of financial assets – continued

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI
At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 – continued

Classification and measurement of financial assets – continued

Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCL or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit and loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 including trade and bills receivables, other receivables, contract assets, pledged bank deposits and bank balances and cash. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bills receivables and contract assets, without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances or collectively using a provision matrix appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk
In assessing whether the credit has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 – continued

Impairment under ECL model – continued

Significant increase in credit risk – continued
In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL
The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

2.2.1 Key changes in accounting policies resulting from application of IFRS 9 – continued

Impairment under ECL model – continued

Measurement and recognition of ECL – continued

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables, contract assets and where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. Based on the assessment by the directors of the Company, there is no material change of the impairment under ECL model.

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

2.2.2 Summary of effects arising from initial application of IFRS 9

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

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

(a) *Available-for-sale investments*

From available-for-sale equity investments to FVTOCI

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

From available-for-sale debt investments to FVTPL

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

2.2.2 Summary of effects arising from initial application of IFRS 9 – continued

(b) Financial liabilities designated as at FVTPL

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

(c) Impairment under ECL model

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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

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

3. SEGMENT INFORMATION

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

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

3. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

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

Six months ended 30 June 2018 (unaudited)

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

Six months ended 30 June 2017 (unaudited)

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

3. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

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

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Segment assets		
Petrochemical	3,101,295	2,916,893
Hospital services	1,063,780	1,055,708
Total segment assets	4,165,075	3,972,601
Other assets	56,366	59,268
Total consolidated assets	4,221,441	4,031,869
Segment liabilities		
Petrochemical	1,835,544	1,628,140
Hospital services	257,233	273,142
Total segment liabilities	2,092,777	1,901,282
Guaranteed notes	157,888	155,549
Convertible bonds	631,426	560,556
Other liabilities	59,979	45,883
Total consolidated liabilities	2,942,070	2,663,270

4. REVENUE FROM GOODS AND SERVICES

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

	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Sales of goods		
System and software sales	**214,520**	109,803
Industrial control valves sales	**234,782**	186,477
Pharmaceuticals	**115,291**	–
Sub-total	**564,593**	296,280
Provision of services		
Provision of maintenance and engineering services	**99,040**	64,884
Design and consulting services	**31,002**	51,504
Healthcare services	**114,871**	–
Sub-total	**244,913**	116,388
	809,506	412,668

Disaggregation of revenue relating to continuing operations

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

5. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Continuing operations		
Bank interest income	**895**	167
Value added tax refund	**466**	773
Government grant (Note)	**12,712**	4,653
Dividend income from available-for-sale financial assets	**–**	2,008
Others	**207**	240
	14,280	7,841

Note: Other than the deferred income released to profit or loss as set out in Note 23, government grants mainly include the government subsidies received by the Group from relevant government bodies in connection with expenses on technology development. All government grants were recognised at the time the grants are receivable and the corresponding expenses has already been incurred and recognised in profit or loss.

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Continuing operations		
Net foreign exchange (losses) gains (Note)	**(480)**	6,107
Loss on disposal of property, plant and equipment	**(45)**	(48)
Loss on disposal of an available-for-sale financial assets	**–**	(3,012)
Change in fair value of convertible bonds (Note 22)	**(67,870)**	–
Gain on financial assets at FVTPL	**489**	–
	(67,906)	3,047

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

7. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Continuing operations		
Interest on bank borrowings	**10,291**	10,280
Interest on guaranteed notes	**7,151**	9,649
Interest on corporate bonds	**8,473**	7,056
Interest on long term payable	**6,147**	1,946
	32,062	28,931
Less: amount capitalised under construction in progress	**(4,125)**	–
	27,937	28,931

8. INCOME TAX EXPENSE (CREDIT)

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

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

9. LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**28,758**	21,662
Amortisation of intangible assets	**7,861**	4,928
Total depreciation and amortisation	**36,619**	26,590
Capitalised in inventories	**(28,526)**	(18,177)
	8,093	8,413
Write-down of inventories, included in cost of sales (Note)	**25,702**	21,032
Impairment loss recognised in respect of trade receivables	**15,047**	5,125
Impairment loss recognised in respect of contract assets	**1,345**	–
Release of prepaid lease payment	**3,332**	2,963
Minimum operating lease rentals in respect of rented premises	**8,093**	9,523

Note: During the period ended 30 June 2018, certain inventory items were found defective and unusable and the carrying amount of these items was written down accordingly.

10. DISCONTINUED OPERATIONS

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

On 11 July 2017, the Group completed the disposal of 100% equity interests of Beijing Consen Process Control Technology Company Limited ("Consen Process Control") at a cash consideration of RMB64,810,000. On 27 September 2017, the Group completed the disposal of 100% equity interests of Beijing Liboyuan Investment Management Company Limited ("Liboyuan Investment") at a cash consideration of RMB14,890,000. Consen Process Control holds 51% equity interest of Nanjing Huashi Electronic Scientific Company Limited ("Nanjing Huashi Electronic") and Liboyuan Investment holds 51% equity interest of Nanjing Huashi Power Equipment Company Limited ("Nanjing Power Equipment"). Nanjing Huashi Electronic and Nanjing Power Equipment engage in the design, production and sale of railway traction control and auxiliary electricity supply systems in the PRC.

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

10. DISCONTINUED OPERATIONS (CONTINUED)

(i) Discontinued operations

Loss for the period from discontinued operations

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

Cash flows from discontinued operations

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

10. DISCONTINUED OPERATIONS (CONTINUED)

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

	Consen Process Control RMB'000	Liboyuan Investment RMB'000	Total RMB'000
Deposits and consideration received as at 30 June 2017	64,810	7,594	72,404
Proceeds receivable upon actual completion of the disposals	–	7,296	7,296
Total consideration of the disposals	64,810	14,890	79,700

(iii) Net cash inflow on disposal of Beijing Transportation

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

11. 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.

12. LOSS PER SHARE

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

12. LOSS PER SHARE (CONTINUED)

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

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased property, plant and equipment from third parties amounting to RMB27,724,000 in order to upgrade its manufacturing capabilities (six months ended 30 June 2017: RMB28,122,000). In addition, the Group incurred RMB11,853,000 on the construction and renovation of its factory plant and office premises (six months ended 30 June 2017: RMB2,182,000).

14. PREPAID LEASE PAYMENT/INTANGIBLE ASSETS

During the current interim period, the Group acquired land use rights amounting to RMB19,305,000. The increase in intangible assets are mainly attributable to the Group capitalised expenditure of RMB10,021,000 on the research and development project.

15. INVENTORIES

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Raw materials	187,727	248,322
Work in progress	144,760	99,069
Finished goods	75,710	78,601
	408,197	425,992

16. TRADE AND BILLS RECEIVABLES

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

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

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

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

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its petrochemical operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

16. TRADE AND BILLS RECEIVABLES (CONTINUED)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. During the current interim period, the Group assessed debtors with balances amounting to RMB975,380,000 and reversed RMB2,250,000 impairment allowance based on provision matrix.

In addition, debtors with balances amounting to RMB259,417,000 as at 30 June 2018 were assessed individually and impairment allowance of RMB16,288,000 were made on these debtors of petrochemical segment for the current interim period.

The Group assessed the impairment allowance of hospital segment separately with balances amounting to RMB41,059,000 at 30 June 2018. The Group provided fully impairment for all receivables of the inpatients discharged from the hospital over 30 days without medical insurance program coverage. Based on historical experience such receivables are generally not recoverable. During the current interim period, impairment allowance of RMB1,009,000 were made on hospital services.

Allowance of trade receivables

The movement in the allowance for trade receivables during the six months ended 30 June 2018 was as follows:

	RMB'000
Balance at 1 January 2018	268,356
Net remeasurement of loss allowance	15,047
Exchange adjustment	434
Balance at 30 June 2018	283,837

17. CONTRACT ASSETS

	30 June 2018 **RMB'000**
Installation service and retention	**45,389**
Less: impairment loss allowance	**(4,539)**
	40,850

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on system and software installation service. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfer contract assets to trade receivables within 1 year.

17. CONTRACT ASSETS (CONTINUED)

Allowance for contract assets

The movement in the allowance for contract assets during the six months ended 30 June 2018 was as follows:

	RMB'000
Balance at 1 January 2018	3,194
Net remeasurement of loss allowance	1,345
Balance at 30 June 2018	4,539

18. OTHER RECEIVABLES AND PREPAYMENTS

An analysis of other receivables and prepayments is as follows:

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Prepayments to suppliers	**145,847**	80,892
Other receivables	**132,016**	89,143
Less: allowance on doubtful debts	**(4,260)**	(4,269)
	273,603	165,766

Other receivables were assessed individually and no further impairment allowance were made on these debtors for the current interim period.

19. TRADE AND BILLS PAYABLES

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

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

20. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Advance from customers	–	62,259
Accrued payroll and welfare	23,345	52,493
Interest payable	14,391	6,809
Other deposits, payables and accruals	79,656	105,005
Construction costs payables	74,241	102,862
Other tax payable	29,437	8,086
	221,070	337,514

21. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB103,000,000 (six months ended 30 June 2017: RMB143,845,000), and repaid bank borrowings amounting to approximately RMB123,847,000 (six months ended 30 June 2017: RMB187,870,000). The borrowings carry interest at market rates of 3.30% to 5.70% (six months ended 30 June 2017: 3.30% to 6.00%) per annum.

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

22. CONVERTIBLE BONDS

On 26 July 2017, the Company issued zero-coupon RMB-denominated convertible bonds with the principal amount of RMB675,588,000 as the consideration of the acquisition of Etern Group Ltd. Each bond will, at the option of the holder, be convertible into the fully paid ordinary shares with a par value of HK$0.01 each in the issued and paid up capital of the Company at an initial conversion price of RMB1.0640 per share. The convertible price is subject to adjustments in the manner set out in the convertible bonds agreement. Conversion may occur at any time on or after 26 July 2017 and up to 26 July 2027. If the convertible bonds have not been converted, they will be redeemed on 26 July 2027 at the principal amount then outstanding.

As the conversion feature of the convertible bonds includes certain adjustment in conversion price upon the triggering events which will not be regarded as anti-dilution protection clause. Accordingly, the conversion feature is considered as embedded derivative. The convertible bonds as a whole are designated as a financial liability at FVTPL with changes in fair value recognised in profit or loss and was measured at fair value on the issued date.

22. CONVERTIBLE BONDS (CONTINUED)

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

	Convertible bonds RMB'000
Fair value at issue date	631,861
Gain on changes in fair value recognised in profit or loss	(71,305)
At 31 December 2017 (audited)	560,556
Loss on changes in fair value recognised in profit or loss (Note 6)	67,870
Fair value changes recognised in FVTOCI reserve	3,000
At 30 June 2018 (unaudited)	631,426

23. OTHER NON-CURRENT LIABILITIES

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

Notes:

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

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

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

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

23. OTHER NON-CURRENT LIABILITIES (CONTINUED)

Notes: – continued

ii. Movements of the deferred income are as follows:

	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 2017	313,524	6,820	–	320,344
Addition	300	8,670	40,000	48,970
Released to profit or loss	(7,041)	(5,586)	–	(12,627)
At 30 June 2018	306,783	9,904	40,000	356,687

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 are included in deferred income and recognised in profit or loss when the relevant research and development expenses are incurred.

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

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 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Within one year	**10,780**	12,965
In the second to fifth year inclusive	**21,959**	28,377
Over five years	**2,466**	–
	35,205	41,342

24. OPERATING LEASES (CONTINUED)

The Group as lessee – continued

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

25. CAPITAL COMMITMENTS

	30 June 2018 RMB'000 (unaudited)	31 December 2017 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	**89,216**	101,716

26. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Salaries and other benefits	**6,634**	7,071
Retirement benefit scheme contributions	**288**	222
	6,922	7,293

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 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Buildings	**158,793**	468,747
Land use rights	**44,893**	58,462
Inventories	**82,841**	71,741
Trade and bills receivable	**4,680**	–
Pledged bank deposits	**38,821**	38,403
	330,028	637,353

27. PLEDGE OF ASSETS (CONTINUED)

As at 30 June 2018, the amounts disclosed above includes the assets of the Group pledged to obtain corporate guarantee from an independent third party for corporate bonds with outstanding principal amount of RMB200,000,000 (31 December 2017: RMB200,000,000). The aggregate carrying amount of these assets pledged to the independent third party are buildings amounting to approximately RMB85,952,000 (31 December 2017: RMB87,781,000) and land use rights amounting to approximately RMB13,601,000 (31 December 2017: RMB13,779,000).

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
30 June 2018			
Unlisted wealth management products classified as financial assets at FVTPL (note a)	**1,980**	**–**	**1,980**
Unquoted equity investments classified as equity instruments at FVTOCI (note b)	**–**	**27,153**	**27,153**
Convertible bonds classified as financial liabilities designated as at FVTPL (note c)	**–**	**(631,426)**	**(631,426)**
31 December 2017			
Unlisted wealth management products classified as available-for-sale financial assets (note a)	31,000	–	31,000
Convertible bonds classified as financial liabilities designated as at FVTPL (note c)	–	(560,556)	(560,556)

Notes:

a. The fair value of the unlisted wealth management products is calculated based on discounted cash flows. Future cash flows are estimated based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty.

b. The fair value of the unquoted equity investments is calculated based on income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.

c. The fair value of convertible bonds are calculated based on binomial option pricing model.

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Xuan Rui Guo (Chairman)
Mr. Wang Chuen Sheng

Independent Non-executive Directors:

Mr. Wang Tai Wen
Mr. Zhang Xin Zhi
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. Zhang Xin Zhi

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SENIOR MANAGEMENT

Mr. Zhou Zheng Qiang
Mr. Ma Yu Shan
Ms. Dong Yan
Ms. Wang Qiu Ping
Mr. Chen Yong
Mr. Duan Min
Ms. Wang Yan Mei
Mr. Ji Jun
Mr. Yang Zhan Fu
Mr. William Erik Barkovitz
Mr. Chow Chiu Chi

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Industrial and Commercial Bank of China (Asia) Limited

PRC:
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Bank of Beijing
Bank of China Limited
China Construction Bank
Industrial and Commercial Bank of China
Bank of Communications
Ping An Bank
Shanghai Pudong Development Bank

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