



中國自動化集團有限公司

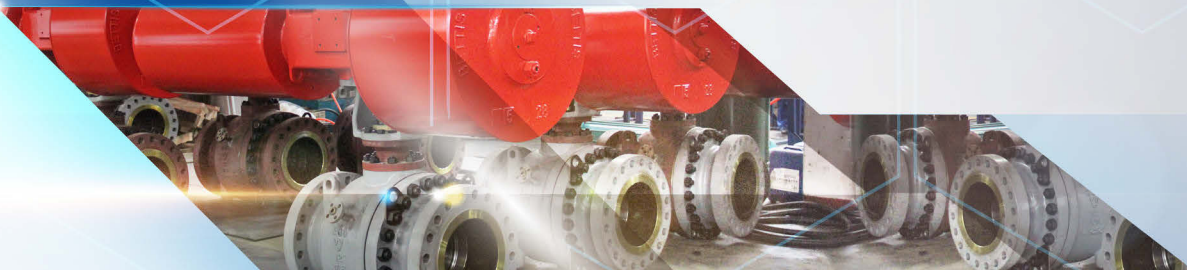
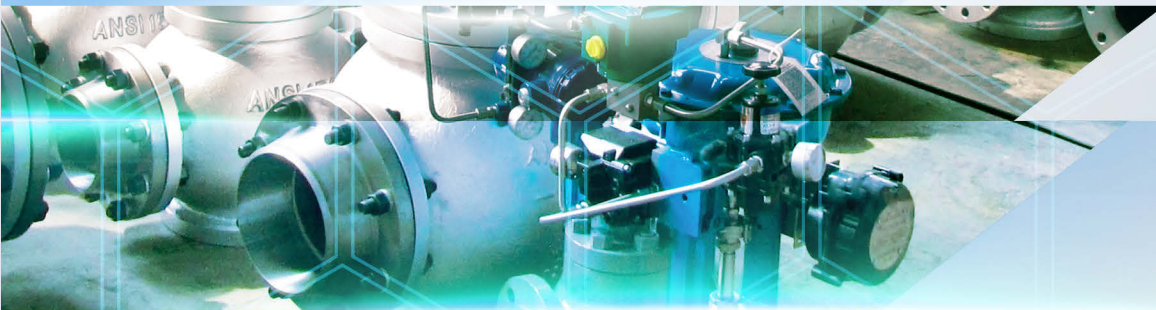
China Automation Group Limited

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



Apply Tomorrow's Technology
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Interim Report 2019



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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

REVENUE

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

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

TURNOVER ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

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

PETROCHEMICAL

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

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

GROSS PROFIT

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

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

THE HOSPITAL SERVICES

Pharmaceutical and healthcare services

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

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT ANALYSIS BY TYPES OF GOODS SUPPLIED AND SERVICES RENDERED

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

GROSS PROFIT MARGIN IN THE PETROCHEMICAL

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

GROSS PROFIT MARGIN IN THE HOSPITAL SERVICES

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

OTHER INCOME

For the six months ended 30 June 2019, other income amounted to RMB22.5 million (1H 2018: RMB14.3 million). The increase was primarily attributable to the increase in government grants received by the Company's subsidiaries from relevant government bodies in connection with expenses on technology development.

OTHER LOSSES

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

IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

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

SELLING AND DISTRIBUTION EXPENSES

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

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

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

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the six months ended 30 June 2019 were RMB37.4 million (1H 2018: RMB28.6 million). The research and development projects undertaken during the period were mainly related to (i) development of high-end control valves in response to the preferential policies regarding localisation enacted by the Chinese Government; and (ii) core hardware for turbine machinery control systems.

FINANCE COSTS

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

INCOME TAX EXPENSES

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

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

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

LOSS FOR THE PERIOD

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

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

GEARING POSITION

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

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The Group has undertaken a detailed strategic review of the Group for the purpose of developing business plans and strategies for its business development in the future, and determining whether any change would be appropriate or desirable in order to optimise its business.

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

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

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

CORPORATE GOVERNANCE

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 2019, 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 2019.

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 2019 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 2019 for the Board's approval) and the adequacy of resources, qualifications and experience of the staff of the Company's accounting and financial reporting function. Its current members include:

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

* *Independent Non-executive Director*

NOMINATION COMMITTEE

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

The Nomination Committee met one time to date in 2019 to review the board composition, the retirement of directors by rotation, the re-appointment of retiring directors at the 2019 Annual General Meeting, and to assess the independence of Independent Non-executive Directors. Its current members include:

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

* *Independent Non-executive Director*

REMUNERATION COMMITTEE

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

The Remuneration Committee met one time to date in 2019 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 2019.

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 2019, the Group continued to conduct 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

OTHER INFORMATION

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial report has been reviewed by the Company's Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 2019.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had a total of 2,356 employees (31 December 2018: 2,307), of which 793 employees (31 December 2018: 793) worked for the hospital services business.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2019, 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 (Notes 2, 3)	515,696,164 (L)	50.25%
		300,000,000 (S)	29.23%

Save as disclosed above and disclosed under the paragraph headed "Share Option Scheme" below, as at 30 June 2019, 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 2019, to the best knowledge of the Directors, the following persons, other than the Directors and chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name of substantial shareholder	Capacity/nature of interest	No. of Shares interested (Note 1)	Approximate percentage of shareholding in the Company
Araco Investment Limited (Notes 2, 3)	Beneficial owner	515,696,164 (L) 300,000,000 (S)	50.25% 29.23%
Brightex Enterprises Limited (Notes 2, 3)	Interest of controlled corporation	515,696,164 (L) 300,000,000 (S)	50.25% 29.23%
Ascendent Automation (Cayman) Limited (Notes 3, 4)	Beneficial owner	548,235,132 (L)	53.42%
Ascendent Capital Partners II, L.P. (Notes 3, 4)	Interest of controlled corporation	548,235,132 (L)	53.42%
Ascendent Capital Partners II, GP, L.P. (Notes 3, 4)	Interest of controlled corporation	548,235,132 (L)	53.42%
Ascendent Capital Partners II GP Limited (Notes 3, 4)	Interest of controlled corporation	548,235,132 (L)	53.42%
Ascendent Healthcare (Cayman) Limited (Notes 5, 6)	Beneficial owner	634,951,127 (L)	61.87%
Ascendent Capital Partners I, L.P. (Notes 5, 6)	Interest of controlled corporation	634,951,127 (L)	61.87%
Ascendent Capital Partners I, GP, L.P. (Notes 5, 6)	Interest of controlled corporation	634,951,127 (L)	61.87%
Ascendent Capital Partners I GP Limited (Notes 5, 6)	Interest of controlled corporation	634,951,127 (L)	61.87%
Mr. Meng Liang (Notes 3, 4, 5, 6)	Interest of controlled corporation	548,235,132 (L) 634,951,127 (L)	53.42% 61.87%

- Notes: 1. The letters "L" and "S" denote the person's long position and short position respectively in the shares (the "Shares") or underlying shares (the "Underlying Shares") of the Company.
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 the Shares and/or Underlying Shares in which Araco is interested.
3. Pursuant to the facility agreement dated 17 December 2018 (the "Facility Agreement") and the amendment agreement dated 14 June 2019 entered into respectively between Araco, Ascendent Automation (Cayman) Limited ("AACL"), Brightex and Mr. Xuan, AACL has the right to require Araco to transfer Shares at HK0.9 per Share to AACL (the "Exchange Right") after the utilisation date of the loan under the Facility Agreement but on or before the final exchange date (i.e. 31 December 2023), and such Exchange Right may be exercised on one occasion. The Exchange Right will entitle AACL to require Araco to transfer 300,000,000 Shares held by Araco. Further details of the Facility Agreement and Exchange Right are set out in the announcement of the Company dated 17 December 2018.
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 the Shares and/or Underlying Shares in which AACL is interested.
5. 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.
6. 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 the Shares and/or Underlying Shares in which Ascendent Healthcare is interested.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2019, 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 Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed 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 in 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 2019, no options were granted.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF CHINA AUTOMATION GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Automation Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 12 to 40, which comprise the condensed consolidated statement of financial position as of 30 June 2019 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

8 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Revenue from goods and services	3	968,986	809,506
Cost of sales		(724,716)	(609,264)
Gross profit		244,270	200,242
Other income	5	22,542	14,280
Other gains and losses	6	(109,306)	(67,906)
Impairment losses under expected credit loss model, net of reversal	18	(8,272)	(16,383)
Selling and distribution expenses		(54,588)	(44,426)
Administrative expenses		(102,692)	(93,944)
Research and development expenses		(37,430)	(28,590)
Other expenses		(766)	(497)
Finance costs	7	(27,484)	(27,937)
Share of loss of an associate		(352)	(966)
Loss before taxation		(74,078)	(66,127)
Income tax expense	8	(21,718)	(16,059)
Loss for the period	10	(95,796)	(82,186)
Other comprehensive (expense) income for the period			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value loss on			
– Equity instruments at fair value through other comprehensive income		(792)	–
– Financial liabilities designated as at fair value through profit or loss attributable to change in credit risk		(73)	(3,000)
		(865)	(3,000)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		592	1,886
Other comprehensive expense for the period		(273)	(1,114)
Total comprehensive expense for the period		(96,069)	(83,300)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		(107,603)	(100,521)
Non-controlling interests		11,807	18,335
		(95,796)	(82,186)
Total comprehensive (expense) income attributable to:			
Owners of the Company		(107,876)	(101,635)
Non-controlling interests		11,807	18,335
		(96,069)	(83,300)
Loss per share			
Basic and diluted (RMB cents)	12	(10.48)	(9.80)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	13	1,032,217	1,008,045
Deposit for acquisition of property, plant and equipment		207,911	114,919
Right-of-use assets	13	309,276	–
Prepaid lease payments – non-current portion		–	272,759
Intangible assets		256,565	257,432
Goodwill		445,500	445,500
Interest in an associate		10,053	10,405
Pledged bank deposits		2,641	1,623
Deferred tax assets		84,440	83,989
Equity instruments at fair value through other comprehensive income		27,234	28,026
		2,375,837	2,222,698
Current assets			
Prepaid lease payments – current portion		–	7,248
Inventories	14	445,208	443,474
Trade and bills receivables	15	1,106,711	1,158,535
Contract assets	16	66,555	41,782
Other receivables and prepayments	17	296,541	161,265
Financial assets at fair value through profit or loss		1,871	1,689
Pledged bank deposits		50,995	53,028
Bank balances and cash		659,382	793,475
		2,627,263	2,660,496
Current liabilities			
Trade and bills payables	19	645,872	651,903
Other payables, deposits received and accruals	20	171,449	270,295
Lease liabilities – current portion	13	10,493	–
Contract liabilities		330,174	120,554
Dividend payable		1,606	2,806
Income tax payable		36,594	42,789
Bank borrowings – due within one year	21	418,593	429,131
Corporate bonds – due within one year		208,854	196,950
Guaranteed notes – due within one year		69,534	69,418
Long term payables – due within one year	23	10,000	–
		1,903,169	1,783,846
Net Current Assets		724,094	876,650
Total Assets less Current Liabilities		3,099,931	3,099,348

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Capital and reserves			
Share capital		9,548	9,548
Share premium and reserves		1,048,668	1,156,544
Equity attributable to owners of the Company		1,058,216	1,166,092
Non-controlling interests		217,340	205,688
Total Equity		1,275,556	1,371,780
Non-current liabilities			
Deferred tax liabilities		67,214	68,033
Bank borrowings – due after one year	21	30,000	60,000
Convertible bonds	22	731,245	617,784
Lease liabilities – non-current portion	13	22,068	–
Long term payables	23	577,286	573,408
Deferred income	24	396,562	408,343
		1,824,375	1,727,568
Total Equity and Non-current Liabilities		3,099,931	3,099,348

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company											Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory		Translation reserve RMB'000	Fair value through other		Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	
				surplus reserves RMB'000	Contribution from owners RMB'000		comprehensive income reserve RMB'000	Convertible bonds reserve RMB'000				
For the six months ended 30 June 2019 (unaudited)												
At 31 December 2018 (audited)	9,548	648,367	34,666	334,368	1,503	14,372	(22,091)	3,496	141,863	1,166,092	205,688	1,371,780
(Loss) profit for the period	-	-	-	-	-	-	-	-	(107,603)	(107,603)	11,807	(95,796)
Exchange differences on translation of foreign operations	-	-	-	-	-	592	-	-	-	592	-	592
Fair value adjustment attributable to												
- changes in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(792)	-	-	(792)	-	(792)
Fair value adjustment attributable to												
- changes in credit risk of the financial liabilities designated as at fair value through profit or loss	-	-	-	-	-	-	-	(73)	-	(73)	-	(73)
Total comprehensive (expense) income for the period	-	-	-	-	-	592	(792)	(73)	(107,603)	(107,876)	11,807	(96,069)
Derecognised on disposal of a subsidiary (Note 9)	-	-	-	-	-	-	-	-	-	-	(155)	(155)
At 30 June 2019 (unaudited)	9,548	648,367	34,666	334,368	1,503	14,964	(22,883)	3,423	34,260	1,058,216	217,340	1,275,556

	Attributable to owners of the Company											Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory		Translation reserve RMB'000	Fair value through other		Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	
				surplus reserves RMB'000	Contribution from owners RMB'000		comprehensive income reserve RMB'000	Convertible bonds reserve 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	-	-	-	-	-	-	(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 own credit risk of the financial liabilities designated as at fair value through profit or loss	-	-	-	-	-	-	-	(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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

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

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

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

Definition of a lease

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

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

As a lessee

Short-term leases and leases of low-value assets

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

Right-of-use assets

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

The cost of right-of-use asset includes:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

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

As a lessee – continued

Right-of-use assets – continued

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

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

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

As a lessee – continued

Lease liabilities – continued

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

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

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

Taxation

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

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

Definition of a lease

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

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

As a lessee

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

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

- i. relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

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

As a lessee – continued

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

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

As a lessee – continued

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

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

Note:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. REVENUE FROM GOODS AND SERVICES – CONTINUED

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

4. SEGMENT INFORMATION

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

Segment revenue and results

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

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

Six months ended 30 June 2019 (unaudited)

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

Six months ended 30 June 2018 (unaudited)

	Petrochemical RMB'000	Hospital services RMB'000	Consolidated RMB'000
Segment revenue	579,344	230,162	809,506
Segment (loss) profit before taxation	(58,360)	62,548	4,188
Income tax expense	(2,804)	(13,255)	(16,059)
Segment (loss) profit	(61,164)	49,293	(11,871)
Unallocated other income			19
Unallocated other gains and losses			(67,870)
Unallocated impairment losses			1,474
Unallocated administrative expenses			(3,938)
Loss for the period			(82,186)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

4. 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 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Segment assets		
Petrochemical	3,844,135	3,784,174
Hospital services	1,158,377	1,095,642
Total segment assets	5,002,512	4,879,816
Other assets	588	3,378
Total consolidated assets	5,003,100	4,883,194
Segment liabilities		
Petrochemical	2,730,424	2,643,846
Hospital services	265,175	248,861
Total segment liabilities	2,995,599	2,892,707
Convertible bonds	731,245	617,784
Other liabilities	700	923
Total consolidated liabilities	3,727,544	3,511,414

5. OTHER INCOME

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Interest income on bank deposits	1,527	895
Value added tax refund	2,208	466
Government grants	18,300	12,712
Others	507	207
	22,542	14,280

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Net foreign exchange gains (losses)	105	(480)
Loss on disposal of property, plant and equipment	(120)	(45)
Loss on changes in fair value of convertible bonds (Note 22)	(113,388)	(67,870)
Gain from disposal of wealth management products	703	489
Gain from changes in fair value of financial assets at fair value through profit or loss	182	–
Gain on disposal of a subsidiary (Note 9)	3,212	–
	(109,306)	(67,906)

7. FINANCE COSTS

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Interest on bank borrowings	11,590	10,291
Interest on guaranteed notes	3,774	7,151
Interest on corporate bonds	8,484	8,473
Interest on long term payables	16,080	6,147
Interest on lease liabilities	1,208	–
	41,136	32,062
Less: Amount capitalised under construction in progress	(13,652)	(4,125)
	27,484	27,937

During the current period, borrowing cost capitalised of RMB13,652,000 (six months ended 30 June 2018: RMB4,125,000) arose from long term payables specifically for the purpose of obtaining qualifying assets with a capitalisation rate of 5.50% per annum to expenditure on qualifying assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

8. INCOME TAX EXPENSE

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

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

9. DISPOSAL OF A SUBSIDIARY

On 1 February 2019, the Group disposed of 97.06%, all equity interests it held, of Beijing Zhongjing Zhenghe Environmental Services Company Limited (“Zhongjing Zhenghe”) to an independent third party at a cash consideration of RMB8,309,000.

The details of the net assets of Zhongjing Zhenghe at the date of disposal were as follows:

	RMB'000
Net assets disposed of:	
Non-current assets	568
Current assets	9,248
Current liabilities	(4,564)
Net assets disposed of	5,252

The results and cash flows of Zhongjing Zhenghe during the current interim period were insignificant.

Gain on disposal of the subsidiary:

Consideration received	8,309
Net assets disposed of	(5,252)
Non-controlling interests	155
Gain on the disposal	3,212

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

9. DISPOSAL OF A SUBSIDIARY – CONTINUED

Net cash inflow arising on disposal:

Total cash consideration received	8,309
Less: bank balances and cash disposed of	(7,763)
	546

10. LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Depreciation of property, plant and equipment	37,464	28,758
Depreciation of right-of-use assets	7,993	–
Amortisation of intangible assets	10,409	7,861
Total depreciation and amortisation	55,866	36,619
Less: Capitalised in inventories	(39,871)	(28,526)
	15,995	8,093
Loss on changes in fair value of convertible bonds	113,388	67,870
Write-down of inventories, included in cost of sales	3,411	25,702
Impairment loss recognised in respect of trade receivables	7,450	15,047
Impairment loss recognised in respect of contract assets	830	1,345
Release of prepaid lease payment	–	3,332

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

12. LOSS PER SHARE

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

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

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

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

13. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group purchased property, plant and equipment from third parties amounting to RMB4,588,000 in order to upgrade its manufacturing capabilities (six months ended 30 June 2018: RMB27,724,000). In addition, the Group incurred RMB59,006,000 on the construction and renovation of its factory plant and office premises (six months ended 30 June 2018: RMB11,853,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS – CONTINUED

During the current interim period, the Group renewed several lease agreements for the use of buildings. The Group is required to make fixed monthly payments. On lease renewal dates, the Group recognised in total RMB11,243,000 of right-of-use assets and lease liabilities respectively.

14. INVENTORIES

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Raw materials	209,951	220,674
Work in progress	118,882	122,691
Finished goods	116,375	100,109
	445,208	443,474

15. TRADE AND BILLS RECEIVABLES

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

15. TRADE AND BILLS RECEIVABLES – CONTINUED

As at 30 June 2019, total bills received amounting to RMB381,825,000 (31 December 2018: RMB425,373,000) are held by the Group for settlement of trade receivables, RMB273,277,000 (31 December 2018: RMB336,461,000) of which certain bills were further discounted/endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills receivable of the Group are with a maturity period of less than one year.

The Group has assessed and concluded that the risk of default rates for bills receivable is steady based on Group's assessment of the financial health of counterparties. Thus, the directors considered that the expected credit loss ("ECL") for bills receivable is insignificant as at 30 June 2019.

16. CONTRACT ASSETS

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Retention receivables	44,851	32,290
Installation service (Note)	27,904	14,862
	72,755	47,152
Less: Allowance for credit losses	(6,200)	(5,370)
	66,555	41,782

Note: The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights to consideration are conditional 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 normally transfers contract assets to trade receivables within 1 year.

17. OTHER RECEIVABLES AND PREPAYMENTS

An analysis of other receivables and prepayments is as follows:

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Prepayments to suppliers	225,775	103,589
Other receivables	74,932	61,850
Less: Allowance for credit losses	(4,166)	(4,174)
	296,541	161,265

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

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

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

During the current interim period, the Group provided impairment allowance of RMB8,272,000. In particular, a specific loss allowance of RMB11,198,000 had been made to an individual debtor which had been suffering significant financial difficulties during the current interim period. In addition, a specific reversal of RMB5,000,000 has been made to an individual debtor due to the settlement of the receivable.

19. TRADE AND BILLS PAYABLES

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

20. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Accrued payroll and welfare	11,734	63,488
Interest payable	–	8,387
Other deposits, payables and accruals	83,434	89,516
Construction costs payable	65,932	86,034
Other tax payable	10,349	22,870
	171,449	270,295

21. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB59,592,000 (six months ended 30 June 2018: RMB103,000,000), and repaid bank borrowings amounting to approximately RMB100,130,000 (six months ended 30 June 2018: RMB123,847,000). The borrowings carry interest at market rates of 4.4% to 5.7% (six months ended 30 June 2018: 3.30% to 5.70%) 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.

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

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 fair value through profit or loss with changes in fair value recognised in profit or loss and was measured at fair value on the issued date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

22. CONVERTIBLE BONDS – CONTINUED

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

	Convertible bonds RMB'000
At 31 December 2018 (audited)	617,784
Loss on changes in fair value recognised in profit or loss (Note 6)	113,388
Loss on changes in fair value due to credit risk recognised in other comprehensive income	73
At 30 June 2019 (unaudited)	731,245

23. LONG TERM PAYABLES

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Long term payable due 2024 (Note)	87,286	–
Long term payable due 2030 (Note)	–	73,808
Long term payables due 2025	500,000	499,600
	587,286	573,408
Less: Amounts due within one year shown under current liabilities	(10,000)	–
Amounts due after one year shown under non-current liabilities	577,286	573,408

Note: On 21 December 2015, the Company's subsidiary, Wuzhong Instrument Company Limited ("Wuzhong Instrument") and Beijing Consen Automation Control Company Limited ("Beijing Consen") entered into a capital contribution agreement (the "Agreement") with 國開發基金有限公司 (transliterated as CDB Development Fund Limited, "CDB"), a limited liability company incorporated in the PRC and wholly-owned by China Development Bank, to support the construction of qualifying assets registered with relevant government authority. Pursuant to the Agreement, CDB made a capital contribution of RMB100,000,000 in cash to Wuzhong Instrument on 29 December 2015.

According to the Agreement, CDB 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 annually on a fixed rate of 1.2%, 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 not entitled to share the profit or net assets of Wuzhong Instrument; (3) retrieve the contribution amount of RMB100,000,000 on a scheduled timetable, Wuzhong Instrument will repay evenly of RMB10,000,000 each year from 2021 to 2030, by exploring different approaches of Beijing Consen's purchase of shares, Wuzhong Instrument's registered capital reduction or other financial market exit mechanisms. Accordingly, the directors of the Company consider that this transaction is a financing arrangement and continue to consolidate Wuzhong Instrument as a wholly-owned subsidiary of the Group.

As the registration of the construction of qualifying assets with relevant government authority is a pre-requisite for the CDB to initiate the negotiation of the Agreement and the rate of return to the CDB is below market rate, the directors of the Company consider such arrangement constituted a government subsidy from the government. The Group recognised fair value of long term payable due 2030 amounting to RMB65,725,000 on initial recognition by discounting future cash flows at 5.7% per annum by reference to the Group's other long term borrowings and subsequently measured at amortised cost by using effective interest rate method. The difference amounting to RMB34,275,000 between carrying amount of the long term payable initially recognised and the cash received as deferred income and will be released on the same basis as depreciation of the qualifying assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

23. LONG TERM PAYABLES – CONTINUED

Note: – continued

During the current interim period, Wuzhong Instrument, Beijing Consen and CDB entered into a supplemental agreement pursuant to which the scheduled repayment timetable was modified and Wuzhong Instrument will repay RMB100,000,000 from year 2019 to 2024. Accordingly, amount of RMB10,000,000, which was scheduled to be repaid in October 2019, had been reclassified to current liabilities.

The directors of the Company consider that the terms are substantially different. Accordingly, the Group accounted for an extinguishment of long term payable due 2030 and the recognition of long term payable due 2024, which are subsequently measured at amortised cost by using the effective interest rate 5.7% per annum. Difference between initial recognition of long term payable due 2024 and carrying amount of long term payables due 2030 at the extinguishment date amounted to RMB11,400,000 and accordingly deducted the carrying amount of corresponding deferred income (Note 24).

24. DEFERRED INCOME

Movements in the deferred income are as follows:

	Government grants related to assets RMB'000	Government grants related to income RMB'000	Relocation compensation RMB'000	Total RMB'000
At 1 January 2019	327,444	40,899	40,000	408,343
Addition	10,100	7,819	–	17,919
Deduction (Note 23)	(11,400)	–	–	(11,400)
Released to profit or loss	(10,172)	(8,128)	–	(18,300)
At 30 June 2019	315,972	40,590	40,000	396,562

25. CAPITAL COMMITMENTS

	30 June 2019 RMB'000 (unaudited)	31 December 2018 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	608,040	834,186

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

26. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Salaries and other benefits	8,500	6,634
Retirement benefit scheme contributions	310	288
	8,810	6,922

27. PLEDGE OF ASSETS

At the end of the reporting period, in addition to the bills discounted as disclosed in Note 15, 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 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Buildings	438,705	443,321
Land use rights	50,434	51,098
Inventories	115,973	109,248
Bills receivable	–	5,850
Pledged bank deposits	53,636	54,651
	658,748	664,168

As at 30 June 2019, 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 2018: RMB200,000,000) and available banking facilities of RMB100,000,000 (31 December 2018: RMB100,000,000). The aggregate carrying amount of these assets pledged to the independent third party are buildings amounting to approximately RMB105,188,000 (31 December 2018: RMB107,591,000) and land use rights amounting to approximately RMB19,847,000 (31 December 2018: RMB20,141,000,000).

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

The board of directors of the Company has delegated a valuation team responsible for determination of the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. The valuation team communicates with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model on a semi-annual basis.

The fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS – CONTINUED

Fair value measurements and valuation processes – continued

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

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2019	31 December 2018		
Financial assets				
Listed securities held for trading	1,871	1,689	Level 1	Quoted bid prices in an active market.
Private equity investments at fair value through other comprehensive income	27,234	28,026	Level 3	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 this investee, based on an appropriate discount rate.
Early redemption right of the guaranteed notes insignificant at initial recognition, therefore not separately accounted for.	–	–	Level 3	The fair value of the early redemption right is calculated based on option pricing model with key inputs which are the difference of the quoted price in an over-the-counter-market of the guaranteed notes and the fair value of liability component of the notes which was based on discounted cash flows using a discount rate of USD Swap.
Financial liabilities				
Convertible bonds	731,245	617,784	Level 3	The fair value of the convertible bonds, which includes two key components, namely the conversion options and the straight bonds, are calculated based on binomial option pricing model using the selected price, convertible bond yield and expected volatility.

Fair value of the Group's financial assets and liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

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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
Mr. Ji Jun
Mr. Yang Zhan Fu
Ms. Han Chi Biao
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Industrial and Commercial Bank of China (Asia) Limited

PRC:

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Bank of Beijing
Bank of China Limited
Bank of Communications
China Construction Bank
Hua Xia Bank
Industrial and Commercial Bank of China
Ping An Bank
Shanghai Pudong Development Bank

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Woo, Kwan, Lee & Lo

As to Cayman Islands law

Conyers Dill & Pearman