China Automation Group Limited
中國自動化集團有限公司

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

Apply Tomorrow's Technology,
Safeguard Security Today

2012

INTERIM REPORT

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FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2012, revenue of the Group increased by 5.2% to RMB1,127.8 million (1H 2011: RMB1,072.4 million), compared with that of the corresponding period of last year.

Revenue generated from petrochemical segment increased by 11.9% to RMB618.9 million (1H 2011: RMB553.2 million), whereas revenue generated from railway segment decreased by 2.0% to RMB508.9 million (1H 2011: RMB519.2 million) for the six months ended 30 June 2012.

Turnover analysis by operating segment

	Six months ended 30 June				
	2012		2011		Change
	(RMB' million)	**%**	(RMB' million)	%	(%)
Petrochemical	**618.9**	**54.9**	553.2	51.6	+11.9
Railway	**508.9**	**45.1**	519.2	48.4	-2.0
	1,127.8	**100.0**	1,072.4	100.0	+5.2

Turnover analysis by types of goods and services supplied

	Six months ended 30 June				
	2012		2011		Change
	(RMB' million)	**%**	(RMB' million)	%	(%)
System sales and Engineering design services					
– Petrochemical					
– Safety system	**479.5**	**42.5**	489.0	45.6	–1.9
– Control valve	**77.3**	**6.9**	—	—	N/A
– Railway	**295.3**	**26.2**	299.5	27.9	-1.4
Sub-total	**852.1**	**75.6**	788.5	73.5	+8.1
Provision of engineering and maintenance services	**64.3**	**5.7**	41.1	3.8	+56.4
Distribution of equipment	**211.4**	**18.7**	242.8	22.7	-12.9
Total	**1,127.8**	**100.0**	1,072.4	100.0	+5.2

Management Discussions and Analysis

With regards to the types of goods and services supplied by the Group, revenue related to system sales, provision of engineering and maintenance services as well as distribution of equipment for the six months ended 30 June 2012 amounted to RMB852.1 million (1H 2011: RMB788.5 million), RMB64.3 million (1H 2011: RMB41.1 million) and RMB211.4 million (1H 2011: RMB242.8 million) respectively.

System sales and engineering design services to petrochemical industries

For the six months ended 30 June 2012, revenue generated from safety and critical control systems and engineering design services in relation to the petrochemical industries slightly decreased by 1.9% to RMB479.5 million (1H 2011: RMB489.0 million). Despite the steady slowdown of the petrochemical industry, management of the Group managed to maintain its market share in the first half of 2012 and it is believed that the industry fundamentals have not undergone any substantial change.

The Group's newly consolidated control valve business delivered satisfactory results and contributed RMB77.3 million to the Group's revenue for the six months ended 30 June 2012.

System sales to railway industries

For the six months ended 30 June 2012, revenue generated from system sales amounted to RMB295.3 million (1H 2011: RMB299.5 million), of which signaling system and traction system accounted for RMB144.9 million (1H 2011: RMB299.5 million) and RMB150.4 million (1H 2011: Nil) respectively.

The management of the Group would like to emphasize that, the decrease of 51.6% of revenue generated from system sales in relation to signaling system, was mainly due to the fact that majority of the projects regarding the national railways won by the Group were either suspended, slowed down or delayed due to the slow resumption of national railway industries following the train accident in Wenzhou, Zhejiang Province on 23 July 2011. Nevertheless, thanks to Nanjing Huashi Electronic Scientific Co. Ltd. ("Nanjing Huashi") of which its revenue generated from system sales in relation to traction systems amounted to RMB150.4 million, this can offset most of the decline in revenue generated from system sales in relation to signaling system.

Provision of engineering and maintenance services

For the six months ended 30 June 2012, revenue generated from the provision of engineering and maintenance services increased by 56.4% to RMB64.3 million (1H 2011: RMB41.1 million). The management of the Group believes that more recurring income related to maintenance services will be generated as a rising number of aged installations have to be replaced following the end of their life cycles, not to mention the installation base is also expanding.

Management Discussions and Analysis

Distribution of equipment

For the six months ended 30 June 2012, revenue in relation to equipment distribution decreased by 12.9% to RMB211.4 million (1H 2011: RMB242.8 million). The management of the Group is of the opinion that the equipment distribution business is not a core business of the Group, but more of an incidental to its core system sales and provision of engineering and maintenance services business.

In terms of business segment, 75.6% (1H 2011: 73.5%) of the revenue was generated from system sales, 5.7% (1H 2011: 3.8%) from the provision of engineering and maintenance services and 18.7% (1H 2011: 22.7%) was from distribution of equipment for the six months ended 30 June 2012.

In addition, in terms of industry segment, 54.9% (1H 2011: 51.6%) of the Group's revenue was generated from the petrochemical segment and 45.1% (1H 2011: 48.4%) was from the railway segment.

Gross profit

Gross profit for the six months ended 30 June 2012 was RMB442.9 million (1H 2011: RMB425.5 million), representing a 4.1% increase over that of the corresponding period of last year.

The overall gross profit margin slightly decreased by 0.4% points to 39.3% for the six months ended 30 June 2012 (1H 2011: 39.7%).

Gross profit analysis by types of goods and services supplied

	Six months ended 30 June		
	2012 (RMB' million)	2011 (RMB' million)	Change (%)
System sales and Engineering design services			
– Petrochemical			
– Safety system	**43.4**	48.1	-4.7
– Control valve	**31.3**	N/A	N/A
– Railway	**46.8**	45.7	+1.1
Sub-total	**43.7**	47.2	-3.5
Provision of engineering and maintenance services	**67.9**	61.6	+6.3
Distribution of equipment	**13.1**	11.5	+1.6
Total	**39.3**	39.7	-0.4

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

The gross profit margin of safety and critical control system and engineering design services in relation to petrochemical industries decreased by 4.7% points to 43.4% (1H 2011: 48.1%). It was mainly due to the unfavourable change in product mix of which the proportion of revenue generated from lower margin ESD system increased relative to higher margin ITCC systems.

The gross profit margin of control valve was at 31.3% for the revenue consolidated. The management of the Group believes that the gross profit margin of control valve business would be much improved should the production scale be increased.

Gross profit margin of system sales in relation to railway industries

The gross profit margin increased by 1.1% points to 46.8% (1H 2011: 45.7%). The improvement in gross profit margin was mainly due to the change in product mix such that contribution of revenue generated from higher-margin series of traction systems sold to Ministry of Railways, thus offsetting the decline in gross profit margin in relation to revenue generated from signaling systems.

Gross profit margin of the provision of engineering and maintenance services

The gross profit margin increased by 6.3% points to 67.9% (1H 2011: 61.6%) compared with that of the corresponding period of the previous year.

Gross profit margin of distribution of equipment

For the six months ended 30 June 2012, the gross profit margin of equipment distribution business slightly increased by 1.6% to 13.1% (1H 2011: 11.5%).

Other income

For the six months ended 30 June 2012, other income amounted to RMB27.8 million (1H 2011: RMB2.5 million). The increase was mainly due to: (i) recognition of VAT refunds from the local tax bureau of RMB21.2 million (1H 2011: VAT refund applications were pended awaiting confirmation of VAT refund policy); and (ii) receipt of Government grant of RMB3.6 million.

Other gains

For the six months ended 30 June 2012, other gains amounted to RMB5.1 million (1H 2011: gains of RMB8.1 million). The decrease was mainly due to the turnaround of foreign exchange gain of RMB2.8 million for the corresponding period of last year to foreign exchange loss of RMB3.9 million for the six months ended 30 June 2012. The turnaround was due to devaluation of Renminbi for the six months ended 30 June 2012. This was partly offset by the higher level of reversal of allowance for bad and doubtful debts.

Management Discussions and Analysis

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2012 were RMB83.3 million (1H 2011: RMB51 million), representing an increase of 63.3% compared with that of the corresponding period of last year.

Such increase was mainly attributable to (i) consolidation of the selling and distribution expenses of both Wuzhong Instrument Co. Ltd. ("Wuzhong Instrument") and Nanjing Huashi and (ii) on the Group's perspective, the increase was due to: (a) staff salaries and benefits increment so as to attract talents; (b) increase in entertainment, traveling expenses and cargo charges incurred along with the expanded business activities nationwide; and (c) increase in technology consultancy fees in relation to large contracts won in the period under review.

Administrative expenses

Administrative expenses for the six months ended 30 June 2012 were RMB131.2 million (1H 2011: RMB104.1 million), representing an increase of 26.0% when compared with that of the corresponding period of last year.

Such increase was mainly attributable to (i) consolidation of the administrative expenses of both Wuzhong Instrument and Nanjing Huashi; and (ii) as for the Group, the increase was mainly attributable to (a) increased staff costs and management bonus; (b) increased rental and related utilities expenses; (c) increased entertainment and conference fees; (d) increased amortization expenses for intangible assets.

Research and development expenses

Research and development expenses for the six months ended 30 June 2012 were RMB 23.7 million (1H 2011: RMB 12.2 million). Such increase was mainly due to the increase in research and development projects such as the development of high-end control valve for coal chemical industries, the development of new signaling related technology; traction system and power supply & converting related equipment for railway industries.

Finance costs

Finance costs for the six months ended 30 June 2012 amounted to RMB61.9 million (1H 2011: RMB53.7 million), an increase of 15.3%. Such increase was mainly attributable to the increase in interest expenses incurred in connection with guaranteed notes issued on 20 April 2011 and therefore there were a total of six months showing the effect for the six months ended 30 June 2012 whereas there were only two and half months being affected for the corresponding period of last year.

Share of results of associates

Losses arising from the results of the Group's associates for the six months ended 30 June 2012 amounted to RMB9.7 million (1H 2011: RMB3.4 million). The loss mainly came from ABB Microunion Traction Equipment Limited.

Management Discussions and Analysis

Income tax expenses

Income tax expenses amounted to RMB34.5 million for the six months ended 30 June 2012, 5.2% higher than that for the corresponding period of last year (1H 2011: RMB32.8 million). However, the effective tax rate of the Group for the six months ended 30 June 2012 increased by 5.7% points to 21.5% (1H 2011: 15.8%). This was mainly due to (i) tax losses of holding company and certain subsidiaries not recognised; and (ii) expiry of tax holiday for certain subsidiaries.

Profit for the year

As a result of the foregoing, the Group recorded RMB90.0 million in profit attributable to equity holders of the Company for the six months ended 30 June 2012 (1H 2011: RMB153.1 million), representing a decrease of RMB63.1 million or 41.2% when compared with that of the corresponding period last year.

Liquidity, financial resources and capital structure

The Group's liquidity position remains strong.

Net cash used in the Group's operating activities amounted to RMB65.8 million (1H 2011: net cash generated from operating activities: RMB45.5 million) for the six months ended 30 June 2012. This was mainly attributable to the increase in trade and bills receivables as well as inventories. The enormous increase in trade and bills receivables was mainly due to the delay in payment by Ministry of Railways as well as the clients in the petrochemical industries. The significant increase of inventories was mainly due to (i) consolidation of the inventories of Wuzhong Instrument; (ii) raw materials and work in progress held up in the warehouse due to the project delay by Ministry of Railways; and (iii) strict implementation of credit policy that delivery of finished goods only upon payment.

Net cash used in investing activities of the Group decreased by RMB33.3 million to RMB149.7 million for the six months ended 30 June 2012 (1H 2011: RMB183.0 million). The major investment during the six months ended 30 June 2012 was acquisition a further 30% equity interests in Wuzhong Instrument at a consideration of RMB97.8 million.

Net cash used in financing activities amounted to RMB54.1 million for the six months ended 30 June 2012 (1H 2011: net cash generated from financing activities: RMB811.2 million). The turnaround was mainly due to the net proceeds received from issuance of 7.75% guaranteed notes of RMB1,255 million for the corresponding period of last year but there was no significant financing activities for the six months ended 30 June 2012.

As at 30 June 2012, cash and bank balances (including bank deposits under conditions) amounted to RMB684.6 million (31 December 2012: RMB920.9 million).

Gearing position

The net gearing (total borrowings less cash over equity) ratio was at 42.2% as at 30 June 2012 (31 December 2012: at 23.8%). As at 30 June 2012, the total borrowings of the Group amounted to RMB1,586.2 million (31 December 2012: RMB1,392.0 million). The total borrowings mainly comprised the guaranteed notes amounted to RMB1,176.1 million (equivalent to USD192 million) issued in April last year.

Management Discussions and Analysis

Significant investments, mergers and acquisitions

For the six months ended 30 June 2012, the Group completed the acquisition of a further 30% equity interests in Wuzhong Instrument at a consideration of RMB97.8 million.

Contingent liabilities

As at 30 June 2012, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The Group will strive to maintain its leading position of safety and critical control systems in the petrochemical and railway industries. Meanwhile, the Group will put great emphasis on consolidating newly acquired control valves and traction systems businesses so as to create additional engines to drive its future growth. Notwithstanding focusing on petrochemical and railway industries, the Group will actively looking for opportunities to expand the same applications into other industries. In the long run, the Group aims to become a large industrial automation company in China, supplying multiple series of products for petrochemical, railway, and other industries.

For the petrochemical segment, the Group will continue to fully support the business development of control valves in Wuzhong Instrument so as to further enhance Wuzhong Instrument's overall capability of sales and marketing, production, internal operation, and R&D. The Group will sustain its efforts in extending the applications of its safety control systems to the upstream oil & gas field as well as metallurgical, power, and other industries. At the same time, the Group will increase the revenue contribution from recurring after-sale engineering and maintenance services by enhanced after-sale service team and value-added services.

For the railway segment, the Group will further enhance the business development of traction systems and related products. The Group, through the consortium of ABB Microunion and Nanjing Huashi, will endeavor to win subway contracts for traction systems. The Group will continue to dedicate itself to developing into a total solution provider with full range of signaling products for urban rail transit projects as a general contractor, and national railway projects as an equipment supplier.

The Group has and will always place great importance on R&D in order to further improve its technology and products. The Group has already set up several targets to accelerate its technology and product development. With these targets in mind, the Group has been working on various R&D projects, such as control valves applied in extreme conditions, control valve positioners, and on-board signaling products, etc.

Riding on its solid business with four key growth engines namely safety and critical control systems, control valves, signaling systems, and traction systems, the Group will strive to maximize returns for its stakeholders in the future.

Corporate Governance

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

Corporate governance practices adopted by the Company during the six months ended 30 June 2012 are in line with those practices set out in the Company's 2011 Annual Report.

THE BOARD

The Board is currently composed of the Group Chairman, two Executive Directors (one is also the Chief Executive Officer) and three Independent Non-executive Directors.

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

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board held four meetings to date in 2012 (with an attendance rate of 100%).

BOARD COMMITTEES

The Board has established the following committees (all chaired by 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 contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

- Audit Committee
- Nomination Committee
- Remuneration Committee

Corporate Governance

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 2012 (with a 100% attendance rate) 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 Committee's written terms of reference and make relevant recommendations to the Board.

The 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 2012 for the Board's approval) and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function. Its current members include:

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

NOMINATION COMMITTEE

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

The Committee met two times to date in 2012 (with a 100% attendance rate) to review the board composition, the retirement of directors by rotation, the re-appointment of retiring directors at 2012 Annual General Meeting, and to assess the independence of Independent Non-executive Directors. Its current members include:

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

REMUNERATION COMMITTEE

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

The Committee met two times to date in 2012 (with a 100% attendance rate) to review and approve all Executive Directors' and Senior Management's remuneration packages. Its current members include:

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

* *Independent Non-executive Director*

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in full compliance with all of the applicable code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2012.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from each Director and relevant employee to confirm compliance with the Model Code for the six months ended 30 June 2012. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2012.

Corporate Governance

INVESTOR RELATIONS AND COMMUNICATIONS

In the first half of 2012, 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

– Road shows

– Investment forums

– Publicity through the mass media

– 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

– Strive to enlarge the research coverage

– In the first half of 2012, the Group's top management and IR team participated in over 10 investment forums and road shows. The team paid visit to the Group's shareholders and potential investors in USA, Singapore, Hong Kong and China, so as to inform and update them about the Group's latest developments. Meanwhile, the Group has hosted site visits for more than 300 investors in Hong Kong and Beijing during the period, during which visitors could witness the Group's stable growth with their own eyes.

In July 2012, an international investment firm FIL Limited increased its holdings in the Group to 8.3%. The shareholder structure of the Group remains in a good and stable position.

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

Other Information

REVIEW OF INTERIM RESULTS

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

INTERIM DIVIDEND

The Board did not recommend the distribution of interim dividend for the six months ended 30 June 2012.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group had a total of 3,076 employees (31 December 2011: 1,813). The significant increase in staff headcount was mainly attributable to the newly acquired company named Wuzhong Instrument.

The emoluments payable to the employees of the Group are determined by their responsibilities, qualifications and experience and the related industrial practices.

Other Information

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2012, 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 in the Listing Rules were as follows:

(i) Long positions in the shares of the Company

	No. of shares						
Name of Director	Personal interest	Family interest	Corporate interest (Note)	Other interest	Interest in underlying shares pursuant to share options	Total	Approximate percentage of shareholding
Mr. Xuan Rui Guo	1,000,000	—	457,933,541	—	—	458,933,541	44.72%

Note: Consen Group Holdings Inc. ("Consen Group") was the legal and beneficial owner of 457,933,541 Shares. Consen Group was owned as to 93.80% by Consen Investments Holding Inc. ("Consen Investments"), which was in turn owned as to 50%, 25% and 25% by Mr. Xuan Rui Guo ("Mr. Xuan"), Mr. Huang Zhi Yong ("Mr. Huang") and Mr. Kuang Jian Ping ("Mr. Kuang") respectively, and owned as to 6.20% by Gembest Investment Limited ("Gembest"). Accordingly, Mr. Xuan was deemed to be interested in the 457,933,541 Shares held by Consen Group by virtue of the SFO.

(ii) Long positions in the shares of associated corporations

		No. of shares					
Name of Associated corporation	Name of Directors	Personal interest	Family interest	Corporate interest	Interest in underlying shares pursuant to share options	Total	Percentage of shareholding
Consen Investments	Mr. Xuan	3,000,000	—	—	—	3,000,000	50%
	Mr. Huang	1,500,000	—	—	—	1,500,000	25%
	Mr. Kuang	1,500,000	—	—	—	1,500,000	25%
Consen Group (Note)	Mr. Xuan	—	—	5,000,000	—	5,000,000	93.8%

Note: Consen Investments was the legal and beneficial owner of 5,000,000 shares in Consen Group. Consen Investments was legally and beneficially owned as to 50% by Mr. Xuan, 25% by Mr. Huang and 25% by Mr. Kuang. Accordingly, Mr. Xuan was deemed to be interested in the 5,000,000 shares held by Consen Investments in Consen Group.

Other Information

Save as disclosed above, as at 30 June 2012, 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 contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the interests of persons (not being a Director or chief executive of the Company) in the shares or underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name	Capacity	Number of shares	Percentage of holding
Consen Group	Registered & beneficial owner	457,933,541	44.62%
Consen Investments (Note)	Interest in a controlled corporation	457,933,541	44.62%
FIL Limited	Registered & beneficial owner (Investment Manager)	74,873,000	7.30%

Note: Consen Group was owned as to 93.80% by Consen Investments and 6.20% by Gembest. Therefore, Consen Investments was deemed to be interested in such 457,933,541 shares held by Consen Group under the SFO.

All the interests stated above represent long positions.

Save as disclosed above, as at 30 June 2012, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

Other Information

SHARE OPTION SCHEME

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

As at 30 June 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 3,652,271 (2011: 3,652,271) (representing 0.36% (2011: 0.36%) of the total number of shares of the Company in issue as at the date of interim report). The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the total number of shares of the Company in issue as at 12 April 2010, The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted to substantial shareholders of the Company or independent non-executive Directors in any 12-month period in excess of 0.1% of the Company's share capital in issue and with an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

An amount of HK$1 is payable by participants on acceptance of the option as consideration for the grant within 28 days from the date upon which the offer is made. Options may be exercised at any time from twelve months from the date of grant of the share option to the five anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Other Information

Details of the share options granted and exercised during the current year and outstanding as at 30 June 2012 are as follows:

	Outstanding at 01 January 2012	Cancelled during the year	Exercised during the year	Outstanding at 30 June 2012
Key management	996,000	0	0	996,000
Other employees	2,656,271	0	0	2,656,271
	3,652,271	0	0	3,652,271
Exercisable at the end of the year				3,652,271

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2012, the Company has not repurchased any shares through the Stock Exchange.

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 set out on pages 19 to 38, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provision thereof and International Accounting Standard 34 "Interim Financial Reporting"("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	NOTES	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Revenue	3	**1,127,786**	1,072,434
Cost of sales		**(684,879)**	(646,952)
Gross profit		**442,907**	425,482
Other income	4	**27,789**	2,469
Other gains and losses	5	**5,093**	8,114
Selling and distribution expenses		**(83,274)**	(51,009)
Administrative expenses		**(131,242)**	(104,112)
Research and development expenses		**(23,693)**	(12,230)
Other expenses		**(5,313)**	(3,601)
Finance costs	6	**(61,896)**	(53,653)
Share of results of associates		**(9,724)**	(3,449)
Profit before taxation		**160,647**	208,011
Income tax expense	7	**(34,500)**	(32,784)
Profit for the period	8	**126,147**	175,227
Other comprehensive income for the period			
Exchange difference arising on translation of foreign operations		**(226)**	3,003
Total comprehensive income for the period		**125,921**	178,230
Profit for the period attributable to:			
Owners of the Company		**90,005**	153,134
Non-controlling interests		**36,142**	22,093
		126,147	175,227
Total comprehensive income attributable to:			
Owners of the Company		**89,779**	156,137
Non-controlling interests		**36,142**	22,093
		125,921	178,230
Earnings per share	10		
Basic (RMB cents)		**8.77**	14.99
Diluted (RMB cents)		**8.77**	14.96

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	NOTES	At 30 June 2012 RMB'000 (unaudited)	At 31 December 2011 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	11	**404,002**	200,970
Prepaid lease payments - non-current portion		**89,953**	42,497
Intangible assets		**399,768**	365,510
Interests in associates	12	**4,062**	189,740
Goodwill		**141,792**	141,792
Bank deposits under conditions		**23,819**	13,385
Deposits for acquisition of a subsidiary	13	**26,000**	53,782
Deferred tax assets		**9,407**	15,218
Available-for-sale financial assets		**64,217**	64,217
Embedded derivative financial asset	17	**16,700**	—
		1,179,720	1,087,111
Current Assets			
Prepaid lease payments - current portion		**1,631**	981
Inventories		**864,030**	596,769
Trade and bills receivables	14	**1,711,032**	1,332,957
Other receivables and prepayments		**160,683**	96,119
Amounts due from customers for contract work		**79,341**	33,175
Bank deposits under conditions		**112,378**	89,656
Bank balances and cash		**548,458**	817,905
		3,477,553	2,967,562
Current Liabilities			
Trade and bills payables	15	**573,170**	386,258
Other payables, deposits received and accruals		**248,982**	179,388
Amounts due to a non-controlling shareholder		—	1,595
Dividend payable		**615**	5
Tax liabilities		**23,521**	14,040
Bank borrowings - due within one year	16	**334,373**	163,558
		1,180,661	744,844

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	NOTES	**At 30 June 2012 RMB'000 (unaudited)**	At 31 December 2011 RMB'000 (audited)
Net Current Assets		**2,296,892**	2,222,718
Total Assets less Current Liabilities		**3,476,612**	3,309,829
Capital and Reserves			
Share capital	18	**9,548**	9,548
Share premium and reserves		**1,749,581**	1,684,898
Equity attributable to owners of the Company		**1,759,129**	1,694,446
Non-controlling interests		**378,208**	281,376
Total Equity		**2,137,337**	1,975,822
Non-current liabilities			
Deferred tax liabilities		**56,081**	57,377
Bank borrowings - due after one year	16	**26,192**	3,990
Long-term debenture		**49,456**	49,399
Guaranteed notes	17	**1,176,102**	1,174,979
Deferred income		**31,444**	48,262
		1,339,275	1,334,007
Total Equity and Non-Current Liabilities		**3,476,612**	3,309,829

Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2012

	Attributable to owners of the Company										
	Share capital	Share premium	Other reserve	Statutory surplus reserves	Contribution from owners	Translation reserve	Share option reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2011											
At 1 January 2011 (audited)	9,491	751,299	(18,335)	54,538	619	(5,769)	15,500	749,796	1,557,139	147,548	1,704,687
Exchange difference arising on translation of foreign operations	—	—	—	—	—	3,003	—	—	3,003	—	3,003
Profit for the period	—	—	—	—	—	—	—	153,134	153,134	22,093	175,227
Total comprehensive income for the period	—	—	—	—	—	3,003	—	153,134	156,137	22,093	178,230
Dividend recognized as distributed (Note 9)	—	(59,828)	—	—	—	—	—	—	(59,828)	—	(59,828)
Issue of shares on exercise of share options	71	24,724	—	—	—	—	(8,778)	—	16,017	—	16,017
Contribution from non-controlling shareholder	—	—	—	—	—	—	—	—	—	712	712
At 30 June 2011 (unaudited)	9,562	716,195	(18,335)	54,538	619	(2,766)	6,722	902,930	1,669,465	170,353	1,839,818
For the six months ended 30 June 2012											
At 1 January 2012 (audited)	**9,548**	**696,209**	**(18,335)**	**73,445**	**619**	**(416)**	**6,713**	**926,663**	**1,694,446**	**281,376**	**1,975,822**
Exchange difference arising on translation of foreign operations	—	—	—	—	—	**(226)**	—	—	**(226)**	—	**(226)**
Profit for the period	—	—	—	—	—	—	—	**90,005**	**90,005**	**36,142**	**126,147**
Total comprehensive income for the period	—	—	—	—	—	**(226)**	—	**90,005**	**89,779**	**36,142**	**125,921**
Acquisition of subsidiaries (Note 19)	—	—	—	—	—	—	—	—	—	**65,190**	**65,190**
Dividends distributed to a non-controlling shareholder	—	—	—	—	—	—	—	—	—	**(4,500)**	**(4,500)**
Dividend recognized as distributed (Note 9)	—	—	—	—	—	—	—	**(25,096)**	**(25,096)**	—	**(25,096)**
At 30 June 2012 (unaudited)	**9,548**	**696,209**	**(18,335)**	**73,445**	**619**	**(642)**	**6,713**	**991,572**	**1,759,129**	**378,208**	**2,137,337**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash (used in) generated from operating activities	**(65,759)**	45,541
Interest received	**1,510**	1,125
Purchases of property, plant and equipment	**(34,152)**	(14,171)
Purchases of intangible assets	**(13,150)**	—
Purchases of available-for-sale financial assets	—	(60,844)
Withdraw of deposits for acquisition of a subsidiary	—	40,800
Deposits for acquisition of a subsidiary	**(26,000)**	(20,000)
Development costs paid	**(7,536)**	(2,025)
Proceeds on disposal of property, plant and equipment	**50**	5
Placement of pledged bank deposits	**(164,348)**	(90,740)
Withdraw of pledged bank deposits	**131,192**	62,894
Investment in an associate	—	(100,000)
Acquisition of a subsidiary (Note 19)	**(37,269)**	—
Net cash used in investing activities	**(149,703)**	(182,956)
New borrowings raised	**266,463**	368,415
Repayments of borrowings	**(227,248)**	(695,693)
Interest paid	**(59,385)**	(31,685)
Proceeds from issuance of guarantee notes	—	1,293,124
Guarantee notes expenses paid	—	(38,081)
Repurchase of 2016 guarantee notes	**(4,916)**	(41,799)
Proceeds from issuance of shares on exercise of share option	—	16,017
Contribution from non-controlling interests	—	712
Dividends paid to owners of the Company	**(24,486)**	(59,828)
Dividends paid to non-controlling shareholders	**(4,500)**	—
Net cash (used in) generated from financing activities	**(54,072)**	811,182
Net (decrease) increase in cash and cash equivalents	**(269,534)**	673,767
Cash and cash equivalents at 1 January	**817,905**	582,238
Effect of foreign exchange rate changes	**87**	1,137
Cash and cash equivalents at 30 June, represented by bank balances and cash	**548,458**	1,257,142

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

1. GENERAL AND BASIS OF PREPARATION

The Company was an exempted company with limited liability incorporated in the Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman KY1-1111, Cayman Islands and its place of business in Hong Kong is located at Suite 3205B-3206, 32/F, Office Tower, Convention Plaza, No. 1, Harbour Road, Wanchai, Hong Kong. The Company is an investment holding company, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company's subsidiaries are principally engaged in the research and providing the solution for the safety and critical control system in chemical, petrochemical, coal chemical, oil and gas market and the railway safety control system in national railway/urban railway market.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs"):

- amendments to IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets; and
- amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets.

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

3. REVENUE AND 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 chief operating decision maker, being the Operating Management Committee ("CODM"), in order to allocate resources to the segment and to assess its performance.

The information reported to the CODM for the purposes of resources allocation and performance assessment focuses more specifically on the category of customer. The principal categories of customers are petrochemical and railway.

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

Six months ended 30 June 2012 (unaudited)

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	618,874	508,912	1,127,786
Segment profit before taxation	102,559	91,325	193,884
Income tax expense	(19,091)	(15,409)	(34,500)
Segment profit	83,468	75,916	159,384
Unallocated other income			476
Unallocated other gains and losses			21,187
Unallocated administrative expenses			(5,737)
Unallocated finance costs			(49,163)
Profit for the period			126,147

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

Six months ended 30 June 2011 (unaudited)

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	553,209	519,225	1,072,434
Segment profit before taxation	116,362	130,591	246,953
Income tax expense	(12,580)	(20,204)	(32,784)
Segment profit	103,782	110,387	214,169
Unallocated other income			142
Unallocated other gains and losses			910
Unallocated administrative expenses			(5,844)
Unallocated finance costs			(34,150)
Profit for the period			175,227

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

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the post-tax profit earned by each segment without allocation of central administrative expenses, interest income, other gains and losses and finance costs of the Company. This is the measure reported to CODM for the purposes of resources allocation and performance assessment.

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

Segment assets	**30 June 2012 RMB'000**	31 December 2011 RMB'000
Petrochemical	**2,894,325**	2,120,763
Railway	**1,743,790**	1,901,067
Total segment assets	**4,638,115**	4,021,830

4. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Value added tax ("VAT") refund (Note)	**21,161**	—
Government grants	**3,554**	—
Bank interest income	**1,510**	1,125
Others	**1,564**	1,344
	27,789	2,469

Note: The amount represents the VAT refund from local tax bureau in accordance with the preferential policy on VAT of software manufacturers.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Net foreign exchange (loss) gain	**(3,944)**	2,803
Reversal of allowance for bad and doubtful debts	**5,142**	2,589
Loss on disposal of property, plant and equipment	**(12)**	(27)
Gain on repurchase of guaranteed notes (Note 17)	**1,226**	2,749
Gain on embedded derivative financial asset (Note 17)	**16,700**	—
Loss on remeasurement of interest in an associate (Note 19)	**(14,019)**	—
	5,093	8,114

6. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Interest on borrowings wholly repayable within five years	**11,392**	22,424
Interest on guaranteed notes	**49,163**	21,534
Interest on long-term debenture	**1,341**	1,338
Expenses on early repayment of syndicated loan (Note)	—	9,261
	61,896	54,557
Less: amount capitalised under construction in progress	—	(904)
	61,896	53,653

Note: During the six months ended 30 June 2011, the Group early repaid the syndicated loan and the corresponding arrangement fee of approximately RMB9,261,000 was recognised as expense.

Borrowing costs capitalised during the six months ended 30 June 2011 are calculated by applying a capitalisation rate of 5.99% per annum to expenditure on qualifying assets. There is no capitalisation of borrowing costs for the current interim period.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current tax charge comprises:		
Hong Kong Profits Tax	—	7,330
People's Republic of China ("PRC") enterprise income tax	**28,259**	19,977
Other jurisdictions	**8**	—
	28,267	27,307
Deferred tax	**6,233**	5,477
	34,500	32,784

Hong Kong Profit Tax is calculated at 16.5% (six months ended 30 June 2011: 16.5%) of the estimated profit for the period. PRC enterprise income tax is calculated at 25% of the estimated assessable profit of the Group's subsidiaries located in the PRC as determined in accordance with relevant tax rules and regulations in the PRC for both current and prior period, except for certain subsidiaries of the Group which enjoyed substantially lower than 25% tax rate due to relevant incentive policies.

7. INCOME TAX EXPENSE (CONT'D)

Certain subsidiaries of the Group operating in the PRC are eligible for tax holiday and concession. The tax holiday and concession are in the form of two years tax exemption from the first profit-making year, followed by 50% reduction of the applicable tax rate in the following three years. During the current interim period, Beijing Sindhu Industrial Software Co., Ltd. is under the third year of 50% tax reduction, Beijing Shang Fang Yun Shui Software Technology Co., Ltd is in the first year of 50% tax reduction.

Beijing Consen Automation Control Co., Ltd. ("Beijing Consen"), Beijing Consen Transportation Technology Co., Ltd. ("Beijing Transportation"), Beijing Jiaoda Microunion Technology Co., Ltd. ("Beijing Jiaoda Microunion"), Nanjing Huashi Electronic Scientific Co., Ltd. ("Nanjing Electronic Scientific "), Zhongjing Engineering Software Technology Company Limited ("Zhongjing") and Wuzhong Instrument Co. Ltd ("Wuzhong") are qualified as "New and High Tech Enterprises", which are subject to enterprise income tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years, and began from 2009 for Nanjing Electronic Scientific, 2010 for Zhongjing and Wuzhong, and 2011 for Beijing Consen, Beijing Transportation and Beijing Jiaoda Microunion.

8. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Cost of inventories expensed	**674,617**	597,086
Depreciation of property, plant and equipment	**16,135**	7,770
Amortisation of intangible assets included in:		
Cost of sales	**3,982**	3,688
Administrative expenses	**8,624**	5,939
	12,606	9,627
Release of prepaid lease payment	**707**	292
Operating lease rentals in respect of rented premises	**16,333**	13,285

9. DIVIDENDS

Dividends recognised as distribution during the period:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
2011 final dividends-HK$3.0 cents per share	**25,096**	—
2010 final dividends-HK$7.0 cents per share	—	59,828

During the current interim period, a final dividend of RMB25,096,000 in respect of the year ended 31 December 2011(six months ended 30 June 2011: RMB59,828,000 in respect of year ended 31 December 2010) was declared to the owners of the Company.

The directors do not recommend any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: HK$20,555,000 at HK$2.0 cents per share, equivalent to RMB17,093,000).

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
Earnings	**2012**	2011
	RMB'000	RMB'000
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	**90,005**	153,134

	Six months ended 30 June	
Number of shares	**2012**	2011
	'000 shares	'000 shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,026,264**	1,021,445
Effect of dilutive share options	**19**	2,306
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,026,283**	1,023,751

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased property, plant and equipment approximately RMB9,885,000 (six months ended 30 June 2011: RMB6,955,000) from third parties, acquired property, plant and equipment approximately RMB194,242,000 (determined on a provisional basis) through acquiring the controlling interest of Wuzhong (six months ended 30 June 2011: Nil), and disposed of property, plant and equipment of approximately RMB62,000 to third parties (six months ended 30 June 2011: RMB32,000).

In addition, the Group spent approximately RMB15,102,000 on the construction of its new office premises and buildings improvements in the current interim period (six months ended 30 June 2011: RMB7,216,000).

12. INTERESTS IN ASSOCIATES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Cost of investments, unlisted	**21,193**	200,165
Share of post-acquisition loss and other comprehensive loss, net of dividends received	**(17,131)**	(10,425)
	4,062	189,740

Details of the Group's associates as at 30 June 2012 are set out below.

Name of entity	Date of establishment	Place of establishment and operation	Fully paid up registered capital	attributable to the Group	Principal activities
廣州ABB微聯牽引設備有限公司 ABB Microunion Traction Equipment Limited	16 July 2010	PRC	US$6,000,000	50%	Traction converters and auxiliary converters
上海金子自動化儀錶有限公司 Shanghai Kaneko Auto-Instruction Limited	27 May 2004	PRC	JPY130,000,000	23.08%	manufacture of industry automatic control valves

During the six months ended 30 June 2012, the Group increased its equity interest in Wuzhong from 50% to 80%, and Wuzhong is accounted for as a subsidiary (See Note 19) and Shanghai Kaneko Auto-Instruction Limited becomes an associate of the Group through acquisition of Wuzhong accordingly.

13. DEPOSITS FOR ACQUISITION OF A SUBSIDIARY

On 25 June 2012, the Company's subsidiary, Beijing Consen Oil and Gas Engineering Co., Ltd. ("Consen Oil and Gas") entered into a share purchase agreement with a third party, to acquire 100% equity interest in Beijing Zhongjing Shihua New Energy Technology Co., Ltd ("Zhongjing Shihua") at a consideration of RMB26,000,000. On the same date, both parties entered into a further strategic cooperation agreement, of which Consen Oil and Gas will make capital contribution in cash to Zhongjing Shihua while the third party will transfer a full set of intellectual property rights related to biodiesel related technology to Zhongjing Shihua. The acquisition and the capital contribution in the strategic cooperation agreement were not completed at the issuance date of these condensed consolidated financial statements.

At 31 December 2011, the Company's subsidiary, Consen International (Hong Kong) Ltd, paid a deposit of RMB53,782,000 to 寧夏銀星能源股份有限公司 (NingXia YinXing Energy Co., Ltd.) for the acquisition of Wuzhong, an existing associate of the Group, to acquire additional 30% equity interest at a consideration of RMB97,786,000 (See Note 19).

14. TRADE AND BILLS RECEIVABLES

The normal credit period except for the retention receivables granted to the Group's customers is 90 to 365 days. The following is an aging analysis of trade and bills receivables at the reporting date:

	30 June 2012 RMB'000	31 December 2011 RMB'000
0 - 90 days	**842,746**	602,153
91 - 180 days	**273,981**	177,396
181 - 365 days	**364,590**	387,369
1 - 2 years	**228,007**	166,037
2 - 3 years	**1,708**	2
	1,711,032	1,332,957

15. TRADE AND BILLS PAYABLES

The following is an aging analysis of trade and bills payables at the reporting dates:

	30 June 2012 RMB'000	31 December 2011 RMB'000
0 - 90 days	**457,188**	222,960
91 - 180 days	**35,062**	79,498
181 - 365 days	**38,687**	45,847
1 - 2 years	**35,877**	31,898
More than 2 years	**6,356**	6,055
	573,170	386,258

16. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to approximately RMB266,463,000 (six months ended 30 June 2011: RMB368,415,000), obtained bank loans of approximately RMB154,100,000 through acquisition of Wuzhong (six months ended 30 June 2011: Nil), and repaid bank loans amounting to approximately RMB227,248,000 (six months ended 30 June 2011: RMB695,693,000, including syndicated loan amounting to RMB329,442,000). The loans carry interest at market rates of 2.12% to 7.87% (six months ended 30 June 2011: 3.53% to 6.94%).

As at 30 June 2012, certain assets of the Group including land, buildings, construction in progress and bank deposits with aggregate carrying value of RMB300,232,000 (31 December 2011: RMB111,862,000) were pledged as security for loan facilities granted by banks.

17. GUARANTEED NOTES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Guaranteed notes	**1,176,102**	1,174,979

On 20 April 2011, the Group issued 7.75% guaranteed notes with the aggregate principal amount of US$200,000,000 (equivalent to approximately RMB1,306,371,000) and maturity date on 20 April 2016 (the "2016 Guaranteed notes") which are unsecured, unconditionally and irrecoverably guaranteed by certain overseas subsidiaries of the Group. The 2016 Guaranteed notes are listed on the Singapore Exchange Securities Trading Limited.

According to the terms and conditions of the 2016 Guaranteed notes, at any time or from time to time prior to the maturity date, the Group may at its option redeem the notes at a redemption price set forth below.

Period	Redemption Price
Prior to 20 April 2014	107.7500% of the principal amount, plus accrued and unpaid interest
20 April 2014 to 20 April 2015	103.8750% of the principal amount, plus accrued and unpaid interest
On 20 April 2015 and thereafter	101.9375% of the principal amount, plus accrued and unpaid interest

The estimated fair value of the early redemption right is RMB16,700,000 at 30 June 2012, and insignificant at initial recognition and at 31 December 2011. A gain of RMB16,700,000 was recognised (Note 5). The early redemption right has been recognised as embedded derivative financial asset in the condensed consolidated statement of financial position.

The effective interest rate is approximately 8.74% per annum after adjusted for transaction costs.

During the current interim period, the Group repurchased the 2016 Guaranteed notes with the aggregate principal amount of US$1,000,000 (equivalent to approximately RMB6,313,000) (six months ended 30 June 2011: US$7,000,000, equivalent to approximately RMB44,548,000) and a gain of approximately RMB1,226,000 (Note 5) (six months ended 30 June 2011: RMB2,749,000) was recognised in other gains and losses.

18. SHARE CAPITAL OF THE COMPANY

	Number of shares '000 shares	Amount HK'000
Authorised:		
Ordinary shares of HK$0.01	3,000,000	30,000
Issued and fully paid:		
At 1 January 2011	1,019,754	10,198
Issue of shares on exercise of share options (Note a)	8,002	80
At 30 June 2011	1,027,756	10,278
Issue of shares on exercise of share options (Note a)	8	—
Shares repurchased and cancelled (Note b)	(1,500)	(15)
At 31 December 2011 and 30 June 2012	1,026,264	10,263

	30 June 2012 RMB'000	31 December 2011 RMB'000
Shown in the consolidated statement of financial position	**9,548**	9,548

(a) During the year ended 31 December 2011, options to subscribe for 332,000 shares and 7,678,000 shares in the Company at HK$2.26 and HK$2.27 per share respectively were exercised. The weighted average closing prices of the Company's shares quoted on the Stock Exchange immediately before the exercise date was HK$6.77.

(b) In August 2011, the Company repurchased 1,500,000 of its own shares through the Stock Exchange at an aggregate consideration of HK$3,323,000 (equivalent to RMB2,930,000). All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK$15,000 (equivalent to RMB13,000) was charged in the share capital and the premium paid on repurchase of HK$3,308,000 (equivalent to RMB2,917,000) was charged against share premium in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

There is no change in the authorised and issued share capital of the Company during the current interim period.

19. ACQUISITION OF A SUBSIDIARY

During the current interim period, the Group acquired an additional 30% interest in Wuzhong at a consideration of RMB97,786,000. After the acquisition, the Group owned 80% interest in Wuzhong and the transaction has been accounted for as business combination using the acquisition method.

Wuzhong is engaged in manufacturing of industry automatic control valves. It was acquired by the Group to expand its petrochemical industry related business.

The assets and liabilities recognised at the date of acquisition, determined on a provisional basis, are as follows:

	Fair value (Provisional) RMB'000
Net assets acquired:	
Property, plant and equipment	194,242
Prepaid lease payment	48,814
Deferred tax assets	1,718
Intangible assets – trademark	23,325
– patents	3,421
Interest in an associate	1,041
Inventories	143,253
Trade and bills receivables	179,831
Other receivables and prepayments	31,008
Bank balances and cash	6,735
Bank borrowings - due within one year	(131,600)
Trade and bills payables	(75,217)
Other payables, deposits received and accruals	(76,459)
Tax liabilities	(1,660)
Bank borrowings - due after one year	(22,500)
	325,952
Consideration transferred	97,786
Plus: Non-controlling interest (20% in Wuzhong)	65,190
Fair value of previously held interest	162,976
Less: net assets acquired	(325,952)
Goodwill arising on acquisition	—

19. ACQUISITION OF A SUBSIDIARY (CONT'D)

Acquisition-related costs relating to the above acquisition are immaterial and have been excluded from the cost of acquisitions and recognised directly as other expense in the condensed consolidated statement of comprehensive income.

The receivables acquired (primarily comprised of trade and other receivables) with a fair value of RMB210,839,000 at the date of acquisition had gross contractual amounts of RMB222,535,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB11,696,000.

Non-controlling interests

The non-controlling interests in Wuzhong (20%) recognised at the acquisition date were measured by reference to the proportionate share of recognised amounts of net assets of Wuzhong and amounted to RMB65,190,000.

Remeasurement of previously held interest

The loss recognised as a result of remeasuring the previously held interest in Wuzhong to fair value is as follows:

	RMB'000
Fair value of previously held interest	162,976
Less: carrying amount	(176,995)
Loss on remeasurement of previously held interest (Note 5)	(14,019)

Net cash outflow arising on acquisition:

	RMB'000
Cash consideration paid	97,786
Less: Cash and cash equivalents acquired	(6,735)
Deposits for acquisition of a subsidiary (Note 13)	(53,782)
	37,269

Impact of acquisition on the results of the Group

Included in the profit for the current interim period is a profit of RMB6,698,000 attributable to Wuzhong. Revenue for the period includes RMB77,344,000 attributable to Wuzhong.

Had the acquisition of Wuzhong been completed on 1 January 2012, total group revenue for the current interim period would have been approximately RMB1,236,622,000 and profit for the period would have been approximately RMB118,046,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2012, nor is it intended to be a projection of future results.

20. 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 2012 RMB'000	31 December 2011 RMB'000
Within one year	**29,528**	17,467
In the second to fifth year inclusive	**21,431**	13,666
	50,959	31,133

21. CAPITAL COMMITMENTS

	30 June 2012 RMB'000	31 December 2011 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements - in respect of acquisition of leasehold land and building	**7,366**	11,309

22. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Salaries and other benefits	**4,970**	3,902
Retirement benefit scheme contributions	**113**	60
	5,083	3,962

Corporate Information

DIRECTORS

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

Independent Non-executive Directors:
Mr. Wang Tai Wen
Mr. Sui Yong Bin
Mr. Ng Wing Fai

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SENIOR MANAGEMENT

Mr. Cui Da Chao
Mr. Wang Wen Hui
Mr. Zhou Zheng Qiang
Mr. Zhang Wei
Mr. Li Hai Tao
Mr. Duan Min
Ms Wang Yan Mei
Mr. Wang Jing Hua
Mr. Wang Shi Wei
Mr. Chow Chiu Chi

STOCK CODE

Hong Kong Stock Exchange 569

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Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited

PRC:
Agricultural Bank of China
Bank of Beijing
Bank of Communications
China Construction Bank
China Merchants Bank
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank
Shenzhen Development Bank Corporation Limited
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