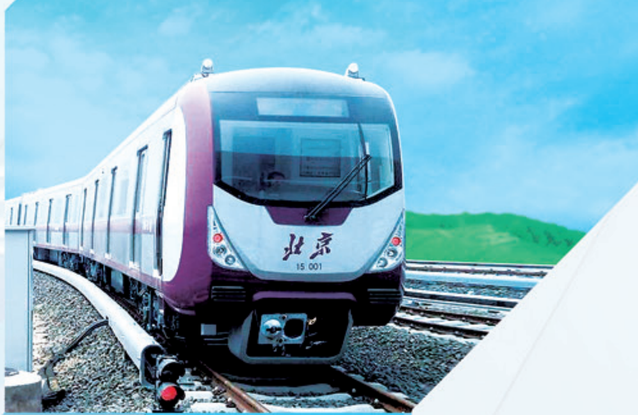
中國自動化集團有限公司

China Automation Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 569)



Apply *Tomorrow's Technology,*
Safeguard Security **Today**

Interim Report 2013

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FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2013, revenue of the Group increased by 7.0% year on year to RMB1,207.1 million (1H 2012: RMB1,127.8 million).

Revenue generated from the petrochemical segment significantly increased by 40.9% to RMB871.9 million (1H 2012: RMB618.9 million), whereas revenue generated from railway segment decreased by 34.1% to RMB335.2 million (1H 2012: RMB508.9 million) for the six months ended 30 June 2013.

Turnover analysis by operating segment

	Six months ended 30 June				
	2013		2012		Change
	(RMB' million)	**Proportion (%)**	(RMB' million)	Proportion (%)	(%)
Petrochemical	**871.9**	**72.2**	618.9	54.9	+40.9
Railway	**335.2**	**27.8**	508.9	45.1	-34.1
	1,207.1	**100.0**	1,127.8	100.0	+7.0

Turnover analysis by types of goods and services

	Six months ended 30 June				
	2013		2012		Change
	(RMB' million)	**Proportion (%)**	(RMB' million)	Proportion (%)	(%)
System sales and Engineering design services					
– Petrochemical					
– safety system	**538.9**	**44.6**	479.5	42.5	+12.4
– control valve	**229.5**	**19.0**	77.3	6.9	+196.9
– Railway					
– Signaling system	**132.4**	**11.0**	144.9	12.9	-8.6
– Traction system	**66.1**	**5.5**	150.4	13.3	-56.1
Sub-total	**966.9**	**80.1**	852.1	75.6	+13.5
Provision of engineering and maintenance services	**73.4**	**6.1**	64.3	5.7	+14.2
Distribution of equipment	**166.8**	**13.8**	211.4	18.7	-21.1
Total	**1,207.1**	**100.0**	1,127.8	100.0	+7.0

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 2013 amounted to RMB966.9 million (1H 2012: RMB852.1 million), RMB73.4 million (1H 2012: RMB64.3 million) and RMB166.8 million (1H 2012: RMB211.4 million) respectively.

System sales and engineering design services for petrochemical industries

Safety systems and engineering design services

For the six months ended 30 June 2013, revenue generated from the sales of safety and critical control systems and provision of engineering design services for the petrochemical industries increased by 12.4% to RMB538.9 million (1H 2012: RMB479.5 million).

The increase was mainly due to: (i) the Group was making strides under the circumstances of the slowdown of economic growth and economic restructure adjustment, which hampered the Group's progress. Even though the Group outperformed the whole industry and other automation providers, the management of the Group was not satisfied and analyzed the business environ ment calmly and adjusted the Group's business strategies in time. As a result, the Group was able to achieve stable organic growth; and (ii) overseas business recorded remarkable growth.

Management Discussion and Analysis

Control valve

The Group's control valve business delivered satisfactory results and contributed RMB229.5million (1H 2012: RMB77.3 million) to the Group's revenue for the six months ended 30 June 2013. Nevertheless, it should be noted that the rise was mainly due to the fact that the control valve business was consolidated in May last year and therefore results for only two months were recorded in first half of 2012 whereas the results of the consolidated business for the full period of six months ended 30 June 2013 were recorded. Apart from this, the control valve business achieved robust growth and gained market share.

System sales to railway industries

In 2013, market-oriented reform initiated in the railway sector of the PRC. The Ministry of Railways has been dissolved, and the China Railway Corporation (the "CRC") has been established and related adjustments to the organizational structures and personnel have been made accordingly, debt financing have been facilitated and freight organization reform started.

Signaling system

Revenue generated from the signaling system business dropped by 8.6% to RMB132.4 million (1H 2012: RMB144.9 million). The management of the Group would like to point out that in the first half of 2013, the CRC was basically under internal adjustment and did not conduct any tendering for equipments and therefore, the Group's railway signaling business in the first half 2013 shrank when compared with that for the corresponding period of the previous year.

Traction system

Revenue generated from the traction system business declined by 56.1% year on year to RMB66.1 million (1H 2012: RMB150.4 million), of which the majority of the revenue recognized were in relation to the subway and overseas projects. The decrease was mainly attributable to CRC's delay in tendering out the rolling stock projects which resulted from the CRC's internal adjustment. This also led to a delay in tendering out the traction system production and supply in the first half of 2013.

Provision of engineering and maintenance services

Revenue generated from the provision of engineering and maintenance services increased by 14.2% to RMB73.4 million (1H 2012: RMB64.3 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 needs to be replaced following the end of their life cycle.

Distribution of equipment

Revenue in relation to equipment distribution decreased by 21.1% to RMB166.8 million (1H 2012: RMB211.4 million). The decrease was mainly due to the slow recovery of the railway equipment industry in the first half of 2013.

In terms of business segment, 80.1% (1H 2012: 75.6%) of the revenue was generated from system sales, 6.1% (1H 2012: 5.7%) was from the provision of engineering and maintenance services and 13.8% (1H 2012: 18.7%) was from distribution of equipment for the six months ended 30 June 2013.

In addition, in terms of industry segment, 72.2% (1H 2012: 54.9%) of the Group's revenue was generated from the petrochemical segment and 27.8% (1H 2012: 45.1%) was from the railway segment.

Gross profit

Gross profit for the six months ended 30 June 2013 was RMB420.5 million (1H 2012: RMB442.9 million), representing a 5.1% decrease as compared to that of the corresponding period of last year.

The overall gross profit margin decreased by 4.5% points to 34.8% for the six months ended 30 June 2013 (1H 2012: 39.3%).

Gross profit margin analysis by types of goods and services supplied

	Six months ended 30 June		
	2013	2012	Change
	(%)	(%)	(%)
System sales and Engineering design services			
– Petrochemical			
– Safety system	**34.4**	43.4	-9.0
– Control valve	**32.2**	31.3	+0.9
– Railway			
– Signaling system	**48.4**	44.8	+3.6
– Traction system	**29.4**	40.5	-11.1
Sub-total	**35.5**	43.7	-8.2
Provision of engineering and maintenance services	**74.1**	67.9	+6.2
Distribution of equipment	**16.8**	13.1	+3.7
Total	**34.8**	39.3	-4.5

Management Discussion and Analysis

Gross profit margin of system sales and engineering design services as well as control valve in relation to petrochemical industries

Gross profit margin of system sales and engineering design services

The gross profit margin of safety and critical control system and engineering design services decreased by 9.0% points to 34.4% (1H 2012: 43.4%). The major reasons for the decrease were: (i) the decrease in margin for the engineering design works as the contributions were mainly related to project management and procurement management (after substantial completion of the design services); (ii) a loss was recorded for an overseas EPC project; and (iii) the unfavourable change in the product mix of which the proportion of revenue related to the lower-margin ESD increased relative to ITCC.

Gross profit margin of control valve

The gross profit margin increased by 0.9% points to 32.2% (2012: 31.3%). The management of the Group believes that the gross profit margin could improve further should the business scale of the control valve further increase and achieve economies of scale.

Gross profit margin of system sales in relation to railway industries

Gross profit margin of signaling system

The gross profit margin increased by 3.6% points to 48.4% (1H 2012: 44.8%).

The improvement of the gross profit margin was mainly due to the decrease in costs of procuring raw material and core components.

Gross profit margin of traction system

The gross profit margin decreased by 11.1 points to 29.4% (1H 2012: 40.5%).

The significant decrease in gross profit margin was mainly due to the fact that the majority of the revenue contribution was from the lower-margin series of electric control cabinets in relation to subway and overseas projects.

Gross profit margin of the provision of engineering and maintenance services

The gross profit margin of the provision of engineering and maintenance services increased by 6.2% points to 74.1% (1H 2012: 67.9%).

Gross profit margin of distribution of equipment

The gross profit margin of equipment distribution business increased by 3.7 points to 16.8% (1H 2012: 13.1%).

Other income

For the six months ended 30 June 2013, other income amounted to RMB27.5 million (1H 2012: RMB27.8 million). The slight decrease was mainly due to: (i) the decrease in VAT refunds from the local tax bureau by RMB7.1 million to RMB14.1 million (1H 2012: RMB21.2 million); but significantly offset by (ii) the increase in receipt of Government grant by RMB6.8 million to RMB10.4 million.

Other losses

For the six months ended 30 June 2013, other losses amounted to RMB24.2 million (1H 2012: gains of RMB5.1 million). The significant turnaround was mainly due to (i) increase in allowance for bad and doubtful debts of RMB23.7 million (1H 2012: reversal of bad and doubtful debts: RMB5.1 million). It should be noted that the management of the Group made an allowance of RMB38.7 million mainly in respect of against those aged accounts receivables in respect of the clients from the railway industry but offset by the write-back of RMB15 million; (ii) recognition of loss on embedded derivative financial asset of RMB5.2 million (1H 2012: gain of RMB16.7 million).

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2013 were RMB96 million (1H 2012: RMB83.3 million), representing an increase of 15.2% compared with that of the corresponding period of the previous year. Such increase was mainly attributable to the fact that the selling and distribution expenses of control valve business was consolidated in May last year and therefore only the results for two months were recorded in first half of 2012 whereas the consolidated results for the full period of six months ended 30 June 2013 were recorded.

Administrative expenses

Administrative expenses for the six months ended 30 June 2013 were RMB128.6 million (1H 2012: RMB131.2 million), representing a decrease of 2% when compared with that of the corresponding period of last year. Such decrease was mainly attributable to (i) the decrease in rental expenses as the Group had not renewed the rental contract for its headquarter in Beijing downtown and relocated it to the plant; and (ii) the decrease in entertainment and conference fees.

In an effort to trim down the selling and distribution expenses as well as the administrative expenses, the Group had implemented stringent budgetary planning and control system as well as undertaken various cost control measures.

Research and development expenses

Research and development expenses for the six months ended 30 June 2013 were RMB42 million (1H 2012: RMB23.7 million). Such increase was mainly due to the increase in the number of research and development projects such as the development of new control valves with large inflow and outflow diameter, the temperature and pressure regulating equipment for coal-chemical industry, the integrated solution to recycle waste steam and heat generated during petrochemical production process as well as the development of new signaling related technology, traction system and electricity convertor/inverter supply related products for railway industries.

Finance costs

Finance costs for the six months ended 30 June 2013 increased by 9.9% year on year to RMB68.0 million (1H 2012: RMB61.9 million). Such increase was mainly attributable to the increase in interest expenses in relation to short-term borrowings for working capital requirements.

Share of results of associates

Losses arising from the results of the Group's associates for the six months ended 30 June 2013 amounted to RMB0.7 million (1H 2012: RMB9.7 million). The losses were mainly attributable to Liaoning Steam Turbine Power Co., Ltd.

Income tax expenses

Income tax expenses amounted to RMB15.7 million (1H 2012: RMB34.5 million) for the six months ended 30 June 2013. The effective tax rate of the Group for the six months ended 30 June 2013 decreased by 3.1% points to 18.4% (1H 2012: 21.5%) because two subsidiaries were eligible for tax exemption during the current period.

Profit for the year

As a result of the foregoing reasons, the Group recorded RMB65.6 million in profit attributable to equity holders of the Company for the six months ended 30 June 2013 (1H 2012: RMB90.0 million), representing a decrease of RMB24.4 million or 27.1% when compared with that of the corresponding period of previous year.

Liquidity, financial resources and capital structure

The Group's liquidity position remains strong.

Net cash generated from the Group's operating activities amounted to RMB27.9 million (1H 2012: net cash used in operating activities: RMB65.8 million) for the six months ended 30 June 2013. The significant improvement in the net cash generated from the Group's operating activities year on year was mainly attributable to (i) the tremendous effort in following up and collecting the trade and bills receivables so that its increase could be kept at a modest level; (ii) meticulous planning to reduce the inventory level; and (iii) delay payment to suppliers.

Net cash used in investing activities of the Group decreased by RMB106.0 million to RMB43.7 million for the six months ended 30 June 2013 (1H 2012: RMB149.7 million). The major investments during the six months ended 30 June 2013 were (i) purchases of property, plant and equipment which amounted to RMB25.8 million; and (ii) development costs paid amounted to RMB11.8 million.

Net cash used in financing activities amounted to RMB57.2 million for the six months ended 30 June 2013 (1H 2012: net cash used in financing activities: RMB54.1 million). There was no significant financing activity for the six months ended 30 June 2013.

As at 30 June 2013, cash and bank balances (including pledged bank deposits) amounted to RMB519.1 million (31 December 2012: RMB587.9 million).

Gearing position

The net gearing (total borrowings less cash over equity) ratio was 49.8% as at 30 June 2013 (31 December 2012: at 48.0%). As at 30 June 2013, the total borrowings of the Group amounted to RMB1,597.4 million (31 December 2012: RMB1,583.1 million). The total borrowings mainly comprised the RMB1,157.6 million (equivalent to USD192 million) worth of guaranteed notes issued in April 2011.

Significant investments, mergers and acquisitions

For the six months ended 30 June 2013, the Group had no significant investments, mergers and acquisitions.

Contingent liabilities

As at 30 June 2013, 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 consistently develop its control valve and traction system businesses to create additional engines for its future growth. The Group will continue to keep its focus on petrochemical and railway industries. In the long run, the Group will persistently enhance its position as a leading company with multiple product series for petrochemical, railway, and other sectors.

For the petrochemical segment, the Group will continue to put great emphasis on business development of control valves in Wuzhong Instrument to further enhance its overall competitive advantages in sales and marketing, production, internal operation, and research and development. The Group will sustain its efforts in extending the applications of its safety control systems to upstream oil & gas field as well as metallurgical, power, nuclear and other industries. At the same time, the Group will enlarge the revenue contribution from recurring engineering and maintenance services by enhanced service team and value-added services.

For the railway segment, the Group will further enhance the business development of traction and auxiliary power supply systems. The Group will keep its efforts on traction system projects of urban rail transit. As an equipment supplier for national railway market and a general contractor for metro sinaling systems, the Group aims to develop itself into a total solution provider which supplies a full range of signaling products to both national railway and urban rail transit projects.

Riding on its solid businesses of four main product series, namely safety and critical control systems, control valves, signaling systems, and traction and auxiliary power supply systems, the Group will endeavour to maximize returns to its stakeholders.

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 2013 are in line with those practices set out in the Company's 2012 Annual Report.

THE BOARD

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

The roles of the Chairman and the Chief Executive Officer are currently performed by separate individuals. This is with a view to enhance their respective independence, accountability and responsibility.

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board held two meetings to date in 2013 (with a 100% attendance rate).

BOARD COMMITTEES

The Board has established the following committees (all chaired by Independent Non-executive Directors) 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 2013 (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 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 2013 for the Board's approval) and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function. The Audit Committee currently comprises of the following members:

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

NOMINATION COMMITTEE

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

The Nomination Committee met two times to date in 2013 (with a 100% attendance rate) to review the board composition, the retirement of directors by rotation, the re-appointment of retiring directors at the 2013 Annual General Meeting, and to assess the independence of Independent Non-executive Directors. The Nomination Committee currently comprises of the following members:

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 one time to date in 2013 (with a 100% attendance rate) to review and approve the remuneration packages of the Executive Director and Senior Management. The Remuneration Committee currently comprises of the following members:

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

* *Independent Non-executive Director*

Corporate Governance

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2013.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Group has adopted procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code").

Relevant employees who are likely to be in possession of unpublished price-sensitive information ("Inside Information") of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. Specific confirmation of compliance has been obtained from each Director and relevant employee for the six months ended 30 June 2013. No incident of non-compliance with the Model Code or the aforesaid guidelines by the Directors or relevant employees was noted by the Company for the six months ended 30 June 2013. The Group is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules, including the overriding principle that information which is expected to be price-sensitive should be announced promptly and to prevent selective or inadvertent disclosure of Inside Information. Therefore, the Company conducts the handling and dissemination of such Inside Information in accordance with the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012 and adopted the Policy on Inside Information on 1 January 2013.

INVESTOR RELATIONS AND COMMUNICATIONS

In the first half of 2013, 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
- 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 2013, the Group's top management and IR team participated in over 8 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.

As at the end of August 2013, international investment firm FIL Limited decreased its shareholding in the Company to 7.99%. 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 2013.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2013, the Group had a total of 2,923 employees (31 December 2012: 3,082).

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

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the 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:

(i) Long positions in Shares

	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.

Save as disclosed above, as at 30 June 2013, 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 2013, 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)	102,815,000	10.02%

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.

Other Information

Save as disclosed above, as at 30 June 2013, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

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

As at 30 June 2013, no options remained outstanding under the Scheme (31 December 2012: no options remained outstanding). 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 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 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 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 Shares.

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.

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 18 to 38, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provision thereof and International Accounting Standard 34 "Interim Financial Reporting"("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 August 2013

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013

	NOTES	Six months ended 30 June **2013** **RMB'000** **(unaudited)**	 2012 RMB'000 (unaudited)
Revenue	3	**1,207,132**	1,127,786
Cost of sales		**(786,594)**	(684,879)
Gross profit		**420,538**	442,907
Other income	4	**27,497**	27,789
Other gains and losses	5	**(24,235)**	5,093
Selling and distribution expenses		**(96,038)**	(83,274)
Administrative expenses		**(128,609)**	(131,242)
Research and development expenses		**(41,999)**	(23,693)
Other expenses		**(3,468)**	(5,313)
Finance costs	6	**(67,950)**	(61,896)
Share of results of associates		**(683)**	(9,724)
Profit before taxation		**85,053**	160,647
Income tax expense	7	**(15,723)**	(34,500)
Profit for the period	8	**69,330**	126,147
Other comprehensive income for the period (net of tax)			
Items that maybe subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**6,034**	(226)
Total comprehensive income for the period		**75,364**	125,921
Profit for the period attributable to:			
Owners of the Company		**65,586**	90,005
Non-controlling interests		**3,744**	36,142
		69,330	126,147
Total comprehensive income attributable to:			
Owners of the Company		**71,620**	89,779
Non-controlling interests		**3,744**	36,142
		75,364	125,921
Earnings per share	10		
Basic (RMB cents)		**6.39**	8.77
Diluted (RMB cents)		**Not Applicable**	8.77

Condensed Consolidated Statement of Financial Position

At 30 June 2013

	NOTES	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	11	**464,649**	446,301
Prepaid lease payments – non-current portion		**111,298**	112,439
Intangible assets	12	**425,623**	394,693
Interests in associates		**25,405**	26,088
Goodwill		**141,792**	141,792
Pledged bank deposits		**16,365**	27,280
Deferred tax assets		**26,243**	29,905
Available-for-sale financial assets		**64,217**	64,217
Embedded derivative financial asset	17	**4,382**	9,573
		1,279,974	1,252,288
Current Assets			
Prepaid lease payments – current portion		**2,770**	2,770
Inventories		**785,535**	857,216
Trade and bills receivables	13	**1,889,741**	1,699,960
Other receivables and prepayments		**145,673**	185,159
Amounts due from customers for contract work		**97,588**	118,635
Pledged bank deposits		**84,585**	65,776
Bank balances and cash		**418,145**	494,819
		3,424,037	3,424,335
Current Liabilities			
Trade and bills payables	14	**532,628**	480,493
Other payables, deposits received and accruals	15	**279,515**	379,918
Amount due to an associate		—	15,000
Amounts due to non-controlling shareholders		**4,660**	—
Dividend payable		**6**	6
Tax payable		**13,445**	22,685
Bank borrowings – due within one year	16	**385,199**	350,514
Corporate bonds – due within one year		**49,575**	49,516
		1,265,028	1,298,132
Net Current Assets		**2,159,009**	2,126,203
Total Assets less Current Liabilities		**3,438,983**	3,378,491

Condensed Consolidated Statement of Financial Position

At 30 June 2013

	NOTES	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Capital and Reserves			
Share capital		**9,548**	9,548
Share premium and reserves		**1,822,371**	1,750,751
Equity attributable to owners of the Company		**1,831,919**	1,760,299
Non-controlling interests		**339,699**	315,055
Total Equity		**2,171,618**	2,075,354
Non-current liabilities			
Deferred tax liabilities		**57,848**	58,091
Bank borrowings - due after one year	16	**5,000**	10,000
Guaranteed notes	17	**1,157,604**	1,173,115
Deferred income		**46,913**	61,931
		1,267,365	1,303,137
Total Equity and Non-Current Liabilities		**3,438,983**	3,378,491

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory surplus reserves RMB'000	Contribution from owners RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
For the six months ended 30 June 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	–	–	–	–	–	–	–	–	–	65,190	65,190
Dividends distributed to a non-controlling shareholder	–	–	–	–	–	–	–	–	–	(4,500)	(4,500)
Dividends recognised as distribution (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
For the six months ended 30 June 2013											
At 1 January 2013 (audited)	**9,548**	**648,367**	**34,666**	**89,713**	**619**	**655**	–	**976,731**	**1,760,299**	**315,055**	**2,075,354**
Exchange difference arising on translation of foreign operations	–	–	–	–	–	**6,034**	–	–	**6,034**	–	**6,034**
Profit for the period	–	–	–	–	–	–	–	**65,586**	**65,586**	**3,744**	**69,330**
Total comprehensive income for the period	–	–	–	–	–	**6,034**	–	**65,586**	**71,620**	**3,744**	**75,364**
Increase of non-controlling interests (Note)	–	–	–	–	–	–	–	–	–	**35,550**	**35,550**
Dividends distributed to non-controlling shareholders	–	–	–	–	–	–	–	–	–	**(14,650)**	**(14,650)**
At 30 June 2013 (unaudited)	**9,548**	**648,367**	**34,666**	**89,713**	**619**	**6,689**	–	**1,042,317**	**1,831,919**	**339,699**	**2,171,618**

Note:

On 22 April 2013, the Company's subsidiary, Beijing Consen Oil and Gas Engineering Co., Ltd. ("Consen Oil and Gas") made further capital contribution in cash amounting to RMB4,000,000 to Beijing Zhongjing Shihua New Energy Technology Co., Ltd ("Zhongjing Shihua"), a wholly owned subsidiary of the Group, while the third party transferred a full set of non-patented technologies to Zhongjing Shihua at a consideration of RMB35,550,000. As a result, Consen Oil and Gas's equity interest in Zhongjing Shihua was decreased from 100% to 51%.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash generated from (used in) operating activities	**27,938**	(65,759)
Interest received	**1,798**	1,510
Addition of property, plant and equipment	**(25,757)**	(34,152)
Addition of intangible assets	—	(13,150)
Deposits for acquisition of a subsidiary	—	(26,000)
Development costs paid	**(11,804)**	(7,536)
Proceeds on disposal of property, plant and equipment	—	50
Placement of pledged bank deposits	**(47,928)**	(164,348)
Withdrawal of pledged bank deposits	**40,034**	131,192
Acquisition of a subsidiary	—	(37,269)
Net cash used in investing activities	**(43,657)**	(149,703)
New bank borrowings raised	**308,978**	266,463
Repayments of bank borrowings	**(279,293)**	(227,248)
Interest paid	**(61,894)**	(59,385)
Repurchase of 2016 Guarantee notes (as defined in Note 17)	—	(4,916)
Repayments of borrowings from an associate	**(15,000)**	—
Dividends paid to owners of the Company	—	(24,486)
Dividends paid to non-controlling shareholders	**(9,990)**	(4,500)
Net cash used in financing activities	**(57,199)**	(54,072)
Net decrease in cash and cash equivalents	**(72,918)**	(269,534)
Cash and cash equivalents at 1 January	**494,819**	817,905
Effect of foreign exchange rate changes	**(3,756)**	87
Cash and cash equivalents at 30 June, represented by bank balances and cash	**418,145**	548,458

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.

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 of Hong Kong Limited 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 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, certain new or revised standards, amendments and interpretation ("new or revised IFRSs") issued by the International Accounting Standards Board ("IASB") that are mandatorily effectively for the current interim period.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current interim period, the Group has applied for the first time IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance.

The impact of the application of these standards that are relevant to the group is set out below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

New and revised Standards on consolidation, joint arrangements, associates and disclosures (cont'd)

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive.

In June 2012, the amendments to IFRS 10, IFRS11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

The directors of the Company have assessed the Group's involvement in its investees upon adoption of these new or revised standards and concluded that the application of these standards has no material impact on the Group's profit or loss, other comprehensive income and financial position in the current and prior periods. However, the directors of the Company consider that the application of IFRS 12 will affect the Group's disclosures in the consolidated financial statements for the year ending 31 December 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measure-ments, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in Note 18.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the title of "condensed consolidated statement of comprehensive income" is changed to "condensed consolidated statement of profit or loss and other comprehensive income" and the presentation of items of other comprehensive income has been modified to reflect the changes.

Except as disclosed above, the application of the other new or revised IFRSs in the current interim period has no material effect on the amounts reported in these condensed consolidated financial statements and/or 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 segments and to assess their performance.

The information reported to the CODM for the purposes of resources allocation and performance assessment focuses more specifically on the category of customers. The principal categories of customers are petrochemical and railway. No operating segments identified by the CODM have been aggregated in arriving at the reportable segment of the Group.

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

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

Six months ended 30 June 2013 (unaudited)

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	**871,941**	**335,191**	**1,207,132**
Segment profit before taxation	**129,487**	**17,971**	**147,458**
Income tax expense	**(12,672)**	**(3,051)**	**(15,723)**
Segment profit	**116,815**	**14,920**	**131,735**
Unallocated other income			**1**
Unallocated other gains and losses			**(5,889)**
Unallocated administrative expenses			**(5,740)**
Unallocated finance costs			**(50,777)**
Profit for the period			**69,330**

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

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.

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
Segment assets		
Petrochemical	**2,994,480**	2,914,884
Railway	**1,616,803**	1,747,033
Total segment assets	**4,611,283**	4,661,917
Other assets	**92,728**	14,706
Consolidated assets	**4,704,011**	4,676,623
Segment liabilities		
Petrochemical	**884,813**	912,786
Railway	**475,617**	514,841
Total segment liabilities	**1,360,430**	1,427,627
Guaranteed notes	**1,157,604**	1,173,115
Other liabilities	**14,359**	527
Consolidated liabilities	**2,532,393**	2,601,269

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash and property, plant and equipment of the Company.
- all liabilities are allocated to operating segments other than other payables, dividend payable, guaranteed notes and bank borrowings of the Company.

4. OTHER INCOME

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Value added tax ("VAT") refund (note i)	**14,076**	21,161
Government grants (note ii)	**10,408**	3,554
Bank interest income	**1,798**	1,510
Others	**1,215**	1,564
	27,497	27,789

Notes:

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

ii. Government grants mainly include the government subsidies received by the Company's subsidiaries from relevant government bodies in connection with technology development. All the grants were recognised at the time the grants are receivable for which compensation for expenses are already incurred.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Net foreign exchange gains (losses)	**4,668**	(3,944)
(Allowance for) reversal of bad and doubtful debts	**(23,712)**	5,142
Loss on disposal of property, plant and equipment	—	(12)
Gain on repurchase of 2016 Guaranteed notes (Note 17)	—	1,226
(Loss) gain on embedded derivative financial asset (Note 17)	**(5,191)**	16,700
Loss on remeasurement of interest in an associate	—	(14,019)
	(24,235)	5,093

6. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Interest expenses on borrowings wholly repayable within five years	**17,663**	11,392
Interest expenses on 2016 Guaranteed notes	**48,902**	49,163
Interest expenses on corporate bonds	**1,385**	1,341
	67,950	61,896

No interest was capitalised during the current and prior interim periods.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Current tax charge comprises:		
People's Republic of China ("PRC") enterprise income tax	**9,133**	28,259
Hong Kong Profits Tax	**3,166**	—
Other jurisdictions	**5**	8
	12,304	28,267
Deferred tax credit	**3,419**	6,233
	15,723	34,500

PRC enterprise income tax is calculated at 25% of the estimated assessable profit of the Company's subsidiaries located in the PRC as determined in accordance with relevant tax rules and regulations in the PRC for both current and prior interim periods, except for certain subsidiaries of the Company which enjoyed substantially lower than 25% tax rate due to relevant incentive policies.

Certain subsidiaries of the Company operating in the PRC are eligible for tax holiday and concession. The tax holiday and concession are in the form of two years tax exemption from the first profit-making year, followed by 50% reduction of the applicable tax rate in the following three years. During the current interim period, Beijing Shang Fang Yun Shui Software Technology Co., Ltd is under the second year of 50% tax reduction. Beijing Heng Tai Ri Xin Software Technology Co., Ltd ("Beijing Heng Tai") and Ningxia Fei Mai Sen Process Control Technology Co., Ltd are both under the second year of tax exemption.

7. INCOME TAX EXPENSE (CONT'D)

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"), Beijing Sindhu Industrial Software Co., Ltd. ("Beijing Software"), 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 2010 for Zhongjing and Wuzhong, both of which are re-qualified in 2012, and 2011 for Beijing Consen, Beijing Transportation, Beijing Software and Beijing Jiaoda Microunion, all of which are re-qualified in 2013, and 2012 for Nanjing Electronic Scientific.

Hong Kong Profit Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Taxation arising in the jurisdictions other than the PRC and Hong Kong is calculated at rates prevailing in the relevant jurisdictions.

8. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Cost of inventories expensed	**774,751**	670,635
Depreciation of property, plant and equipment	**22,392**	16,135
Amortisation of intangible assets included in:		
Cost of sales	**6,390**	3,982
Administrative expenses	**9,512**	8,624
	15,902	12,606
Release of prepaid lease payment	**1,141**	707
Operating lease rentals in respect of rented premises	**17,467**	16,333

9. DIVIDENDS

No dividends have been declared in the current interim period. During the six months ended 30 June 2012, final dividends of HK$30,788,000 (equivalent to approximately RMB25,096,000) at HK$3.0 cents per share in respect of year ended 31 December 2011 were declared to the owners of the Company.

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

10. EARNINGS PER SHARE

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

Earnings

	Six months ended 30 June	
	2013	2012
	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)	**65,586**	90,005

Number of shares

	Six months ended 30 June	
	2013	2012
	'000 shares	'000 shares
Number of ordinary shares for the purpose of basic earnings per share	**1,026,264**	1,026,264
Effect of dilutive potential ordinary shares for share options	**Not Applicable**	19
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**Not Applicable**	1,026,283

No diluted earnings per share is presented as there was no potential ordinary shares outstanding during the current interim period.

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased property, plant and equipment approximately RMB32,393,000 (six months ended 30 June 2012: RMB9,885,000) from third parties.

In addition, the Group incurred approximately RMB8,347,000 on the construction of its new office premises and buildings improvements in the current interim period (six months ended 30 June 2012: RMB15,102,000).

12. INTANGIBLE ASSET

During the current interim period, additions to intangible assets amounting to RMB47,354,000 (six months ended 30 June 2012: RMB20,685,000) consist of capitalisation of development costs of RMB11,804,000 (six months ended 30 June 2012: RMB7,536,000) and non-patented technologies of RMB35,550,000 (six months ended 30 June 2012: Nil) contributed by a non-controlling shareholder of Zhongjing Shihua.

13. 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 based on the invoice date at the end of the reporting period:

	30 June 2013 RMB'000	31 December 2012 RMB'000
0 - 90 days	**941,512**	850,015
91 - 180 days	**204,075**	280,278
181 - 365 days	**457,061**	294,339
1 - 2 years	**249,220**	257,867
2 - 3 years	**37,873**	17,461
	1,889,741	1,699,960

14. TRADE AND BILLS PAYABLES

The following is an aging analysis of trade and bills payables based on the invoice date at the end of the reporting period:

	30 June 2013 RMB'000	31 December 2012 RMB'000
0 - 90 days	**333,541**	326,709
91 - 180 days	**80,047**	56,744
181 - 365 days	**74,409**	39,144
1 - 2 years	**23,869**	39,451
2 - 3 years	**20,762**	18,445
	532,628	480,493

15. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2013 RMB'000	31 December 2012 RMB'000
Advance from customers	**79,707**	149,605
Accrued payroll and welfare	**28,440**	73,300
Interest payable	**20,100**	19,137
Other deposits, payables and accruals	**68,468**	59,860
Other tax payable	**82,800**	78,016
	279,515	379,918

16. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB308,978,000 (six months ended 30 June 2012: RMB266,463,000), and repaid bank borrowings amounting to approximately RMB279,293,000 (six months ended 30 June 2012: RMB227,248,000). The borrowings carry interest at market rates of 2.12% to 7.22% (six months ended 30 June 2012: 2.12% to 7.87%) per annum.

Details of pledge of assets for the Group's secured bank borrowings are set out in note 22.

17. GUARANTEED NOTES

	30 June 2013 RMB'000	31 December 2012 RMB'000
Guaranteed notes	**1,157,604**	1,173,115

On 20 April 2011, the Group issued 7.75% guaranteed notes with the aggregate principal amount of US$200,000,000 and maturity date on 20 April 2016 (the "2016 Guaranteed notes") which are unsecured, unconditionally and irrecoverably guaranteed by certain overseas subsidiaries of the Company. 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	107.750% of the principal amount, plus accrued and unpaid interest
20 April 2014 to 20 April 2015	103.875% 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 RMB4,382,000 at 30 June 2013 (31 December 2012: RMB9,573,000). The early redemption right has been recognised as embedded derivative financial asset in the condensed consolidated statement of financial position. A loss of RMB5,191,000 was recognised during the current interim period (six months ended 30 June 2012: a gain of RMB16,700,000) (Note 5).

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

During the prior 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) and a gain of approximately RMB1,226,000 (Note 5) was recognised in profit or loss.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

	Fair value as at					
Financial assets	**At 30 June 2013**	**At 31 December 2012**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
Early redemption right classified as embedded derivative financial asset in the condensed consolidated statement of financial position.	**Assets – RMB 4,382,000**	Assets – RMB 9,573,000	Level 3	The fair value of the embedded derivative financial asset is derived from the difference of the quoted market price of guaranteed notes extracted from Bloomberg and the fair value of the liability component of the guaranteed notes which was based on discounted cash flows using a discount rate of 7.93% as at 30 June 2013.	Discount rate of the liability component	The higher the discount rate, the higher the fair value.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONT'D)

Except as detailed in the below table, 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.

	30 June 2013		31 December 2012	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	**RMB'000**	RMB'000	RMB'000
Guaranteed notes – liability component	**1,161,986**	**1,156,088**	1,182,688	1,142,343

Reconciliation of Level 3 fair value measurements of financial assets

	Embedded derivative financial asset
	RMB'000
At 1 January, 2013	9,573
Changes in fair value during the period	(5,191)
At 30 June, 2013	4,382

Changes in fair value during the period amounting to RMB5,191,000 are included in "other gains and losses".

Fair value measurements and valuation processes

The board of directors of the Company has assigned a senior finance manager, which is supervised by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of the derivative financial asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The senior finance manager works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the findings to the board of directors of the Company every half a year to explain the cause of fluctuations in the fair value of the assets.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

19. 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 2013 RMB'000	31 December 2012 RMB'000
Within one year	**25,618**	31,221
In the second to fifth year inclusive	**9,669**	25,082
	35,287	56,303

20. CAPITAL COMMITMENTS

	30 June 2013 RMB'000	31 December 2012 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements – in respect of acquisition of leasehold land and building	**20,701**	23,503

21. RELATED PARTY TRANSACTIONS

(a) The Group has entered into the following significant transactions with its related parties during the reporting period:

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Dividend declared to non-controlling shareholders of a subsidiary	**14,650**	4,500

21. RELATED PARTY TRANSACTIONS (CONT'D)

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Salaries and other benefits	**5,654**	4,970
Retirement benefit scheme contributions	**140**	113
	5,794	5,083

(c) The following balances were outstanding at the end of the reporting period:

	30 June 2013	31 December 2012
	RMB'000	RMB'000
Amount due to an associate	—	15,000
Amounts due to non-controlling shareholders	**4,660**	—
	4,660	15,000

22. PLEDGE OF ASSETS

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
Leasehold land and buildings	**184,628**	160,101
Land use rights	**49,671**	50,617
Trade receivables	**10,000**	30,000
Bills receivable	**1,500**	651
Inventories	**111,011**	—
Pledged bank deposits	**100,950**	93,056
	457,760	334,425

The Group has pledged leasehold land and buildings with a carrying amount of approximately RMB29,876,000 (31 December 2012: RMB30,450,000) and pledged land use right with a carrying amount of approximately RMB8,119,000 (31 December 2012: RMB8,236,000) to obtain corporate guarantee from an independent third party for the banking facilities of RMB68,959,000 (31 December 2012: RMB45,000,000) granted to the Group. In addition, the Group paid approximately RMB622,000 (31 December 2012: RMB619,000) to the independent third party for the corporate guarantees provided.

Corporate Information

DIRECTORS

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

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

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SENIOR MANAGEMENT

Mr. Cui Da Chao
Mr. Wang Wen Hui
Mr. Zhou Zheng Qiang
Mr. Li Hai Tao
Mr. Chen Yong
Mr. Ma Yu Shan
Mr. Li Guang Lei
Mr. Tian Lei
Mr. Duan Min
Ms Wang Yan Mei
Mr. Wang Jing Hua
Mr. Xu Jie
Mr. William Erik Barkovitz
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Hong Kong Stock Exchange 569

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The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank Limited

PRC:
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Bank of Beijing
Bank of Communications
China Construction Bank
China Merchants Bank
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank
China Guangfa Bank
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