THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Automation Group Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agents through whom the sale or transfer was effected for transmission to the purchaser or transferee.

中國自動化集團有限公司

China Automation Group Limited

(HK stock code 0569)

(Incorporated in the Cayman Islands with limited liability)

VERY SUBSTANTIAL DISPOSAL IN RESPECT OF THE DISPOSAL OF A NON WHOLLY-OWNED SUBSIDIARY AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

第一上海

FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED

第一上海融資有限公司

First Shanghai Capital Limited

A "Letter from the Board" is set out on pages 4 to 13 of this circular.

A notice convening the EGM of the Company to be held at Admiralty Conference Centre, Room 1804A, 18th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 15 May 2015 at 10:00 a.m. is set out on pages 48 and 49 of this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

25 April 2015

CONTENTS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Beijing Jiaoda Microunion"	北京交大微聯科技有限公司 (transliterated as Beijing Jiaoda Microunion Technology Company Limited*), a company established in the PRC with limited liability and is owned as to 76.7% by Tibet Consen and 23.3% by the other two corporate equity-holders as at the Latest Practicable Date which respectively are third parties independent of the Company and any of its connected persons as at the Latest Practicable Date
"Board"	the board of Directors
"business day(s)"	any day (other than Saturday, Sunday or public holiday) on which commercial banks are open for business in the PRC
"Company"	China Automation Group Limited, a company incorporated in the Cayman Islands on 25 July 2006 with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange since 12 July 2007
"Completion"	completion of the S&P Agreement in accordance with its terms and conditions
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consen Group"	Consen Group Holding Inc., a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company, which as at the Latest Practicable Date holds an approximate 44.62% shareholding interest in the Company
"Consideration"	the consideration of RMB811,650,000 (equivalent to approximately HK$1,003.3 million) for the Disposal
"Directors"	the directors of the Company
"Disposal"	the disposal by Tibet Consen of the Sale Interests to the Purchaser pursuant to the S&P Agreement
"EGM"	the extraordinary general meeting of the Company to be convened for, among others, considering, and if thought fit, approving the S&P Agreement and the transactions contemplated thereunder

"Escrow Account"	the bank escrow account set up in the name of Tibet Consen for the sole purpose of settlement of the third instalment of the Consideration by the Purchaser
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administration Region of the PRC
"Latest Practicable Date"	23 April 2015, being the latest practicable date before the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Huang"	Mr. Huang Zhi Yong, an executive Director
"Mr. Kuang"	Mr. Kuang Jian Ping, an executive Director
"Mr. Xuan"	Mr. Xuan Rui Guo, an executive Director
"PRC" or "China"	the People's Republic of China, excluding Hong Kong, the Macau Special Administration Region and Taiwan for the purpose of this circular
"Purchaser"	深圳前海瑞聯二號投資中心(有限合夥) (transliterated as Shenzhen Qian Hai Rui Lian No. 2 Investment Centre (Limited Partnership)*), a limited partnership established in the PRC and managed by Wah Tai, being an investment management fund
"Remaining Group"	the Group immediately after completion of the Disposal
"RMB"	Renminbi, the lawful currency of the PRC
"S&P Agreement"	the agreement in relation to the Disposal dated 23 March 2015 entered into between Tibet Consen, the Purchaser and Wah Tai
"Sale Interests"	being the entire 76.7% equity interest in Beijing Jiaoda Microunion held by Tibet Consen
"SFO"	The Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong, as amended from time to time
"Share(s)"	share(s) of HK$0.01 each in the capital of the Company

"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed thereto under the Listing Rules
"Tibet Consen"	西藏康吉森電子科技有限公司 (transliterated as Tibet Consen Electronic Technology Company Limited*), a company established in the Tibet Autonomous Region, the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Wah Tai"	華泰瑞聯基金管理有限公司 (transliterated as Wah Tai Rui Lian Fund Management Company Limited*), a company established in the PRC in November 2013 with limited liability and being the general partner and executive partner of the Purchaser
"%"	per cent.

Notes: In this circular, amounts denominated in RMB have been translated into HK$ at the rate of RMB0.809 = HK$1.000. No representation is made that any amounts in HK$ or RMB have been or could have been or can be converted at the above rates or at any other rates or at all.

* *English names of the PRC established companies in this circular are only translations of their official Chinese names solely for identification purpose. In case of inconsistency, the Chinese names shall prevail.*

中國自動化集團有限公司
China Automation Group Limited
(HK stock code 0569)
(Incorporated in the Cayman Islands with limited liability)

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

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Unit 3205B-3206
32nd Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

25 April 2015

To the Shareholders

Dear Sirs or Madam,

**VERY SUBSTANTIAL DISPOSAL
IN RESPECT OF THE DISPOSAL OF
A NON WHOLLY-OWNED SUBSIDIARY**

INTRODUCTION

Reference is made to the announcement of the Company dated 23 March 2015 in relation to the S&P Agreement and the transactions contemplated thereunder, which constitute a very substantial disposal of the Company under the Listing Rules.

The purpose of this circular is to provide, among others: (a) details of the S&P Agreement; (b) certain financial information of the Group; (c) the notice of the EGM; and (d) other information as is required under the Listing Rules.

On 23 March 2015, Tibet Consen, being an indirect wholly-owned subsidiary of the Company, the Purchaser and Wah Tai entered into the S&P Agreement, pursuant to which Tibet Consen has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Interests, being 76.7% equity interest in Beijing Jiaoda Microunion at a consideration of RMB811,650,000 (equivalent to approximately HK$1,003.3 million). Principal terms of the S&P Agreement are set out below.

S&P AGREEMENT

Date:	23 March 2015	
Parties to the S&P Agreement:	(1)	Tibet Consen (as the vendor);
	(2)	The Purchaser; and
	(3)	Wah Tai.

Pursuant to the S&P Agreement, in accordance with the relevant laws in the PRC, Wah Tai undertakes to be jointly liable for all the obligations of the Purchaser arising from the S&P Agreement.

Assets to be disposed

Pursuant to the S&P Agreement, Tibet Consen has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Interests, being 76.7% equity interest in Beijing Jiaoda Microunion. Beijing Jiaoda Microunion is principally engaged in the design, development and sales of railway signaling systems in the PRC.

Consideration

The Consideration of RMB811,650,000 (equivalent to approximately HK$1,003.3 million) shall be paid in cash by the Purchaser to Tibet Consen in the following manner:

(i) the first instalment, being 30% of the Consideration, amounting to RMB243,495,000 (equivalent to approximately HK$301.0 million), to be settled within 5 business days from the date of signing the S&P Agreement;

(ii) the second instalment, being 40% of the Consideration, amounting to RMB324,660,000 (equivalent to approximately HK$401.3 million), to be settled within 5 business days from the date of fulfilment of the condition precedent under the S&P Agreement as set out below; and

(iii) the third instalment, being the remaining 30% of the Consideration, amounting to RMB243,495,000 (equivalent to approximately HK$301.0 million), to be transferred by the Purchaser in full to the Escrow Account on the date of settlement of the second instalment and to be released to Tibet Consen within one business day from the date of Completion.

As at the Latest Practicable Date, 30% of the Consideration amounting to RMB243,495,000 (equivalent to approximately HK$301.0 million) had been received by the Group.

The Purchaser and Tibet Consen shall each appoint a designated person to jointly give instructions to the bank with which the Escrow Account is opened to release the third instalment of the Consideration to Tibet Consen. Such bank must have instructions from both persons so designated before making any transfer of the third instalment deposited in the Escrow Account.

In the event that the Purchaser fails to settle any part of the above Consideration in the aforesaid manner or the abovementioned person designated by it fails to give instructions to the relevant bank for the release of the third instalment from the Escrow Account to Tibet Consen within one business day from the date of Completion, the Purchaser shall pay Tibet Consen overdue charges of 0.05% of the delayed portion of Consideration on a daily basis. If any part of the Consideration has been overdue for more than 10 days, unless an extension for payment is mutually agreed between Tibet Consen and the Purchaser, Tibet Consen is entitled to terminate the S&P Agreement and the Purchaser is required to pay Tibet Consen 50% of the total Consideration as liquidated damages for breach of the S&P Agreement.

In the event that Tibet Consen fails to fulfill its obligations for completion of the Disposal, the Purchaser is entitled to terminate the S&P Agreement and Tibet Consen is required to pay the Purchaser overdue charges of 0.05% of the Consideration paid by the Purchaser on a daily basis and, if the relevant obligation is overdue for more than 10 days, unless an extension for performance of such obligation is mutually agreed between Tibet Consen and the Purchaser, Tibet Consen is required to pay the Purchaser 50% of the total Consideration as liquidated damages for breach of the S&P Agreement.

Basis for determining the Consideration

The terms of the S&P Agreement and the Consideration have been arrived at after arm's length negotiation between Tibet Consen and the Purchaser based on normal commercial terms and was determined with reference to (i) the audited consolidated net asset value of Beijing Jiaoda Microunion as at 31 December 2014; and (ii) the anticipated business development potential of Beijing Jiaoda Microunion, which the Company considers, would be relatively sluggish in the coming future, because the Company is of the view that there is limited room for its further development in the PRC due to keen competition among railway equipment industry players following the substantial completion of the nation-wide railway network in the PRC.

The Company would like to elaborate the basis for determining the Consideration that based on the Directors' extensive experience and market intelligence in the railway signaling system industry over the years and potential purchasers' reaction for the Disposal, the market value of the entire 100% equity interest in Beijing Jiaoda Microunion was roughly estimated by them to be around RMB1,000 million, and accordingly RMB767 million is attributable to the 76.7% equity interest held by the Group, through Tibet Consen. The final Consideration of RMB811.65 million was the highest bid price offered by the Purchaser among a number of the then potential purchasers in the market prior to the entering into of the S&P Agreement on 23 March 2015, which accordingly, was accepted by Tibet Consen during the bargaining process.

The Directors would like to clarify that the market value of the entire 100% equity interest in Beijing Jiaoda Microunion of RMB1,000 million is substantially attributable to its holding one of the only four licences in the PRC granted by China Railway Corporation for the provision of railway station computerised interlocking software and system integration. The historical profitability and/or discounted cash flow in the future of Beijing Jiaoda Microunion were relatively irrelevant for determining the Consideration, so no independent valuation report was prepared by the parties to the S&P Agreement for reference.

The Directors consider that the terms of the S&P Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Voting undertaking

Each of Consen Group, Mr. Xuan, Mr. Kuang and Mr. Huang has undertaken to the Purchaser to vote in favour of the relevant resolution(s) to approve the S&P Agreement at the EGM (if it/he holds any Shares), and each of Mr. Xuan, Mr. Kuang and Mr. Huang has also undertaken to the Purchaser to procure Consen Group to vote in favour of the relevant resolution(s) to approve the S&P Agreement at the EGM, in each case, for so long as it/he is not precluded from voting under the Listing Rules or by the Stock Exchange.

As at the Latest Practicable Date, (i) Consen Group holds 457,933,541 Shares, representing approximately 44.62% of the entire issued share capital of the Company and is owned as to 93.80% by Consen Investments Holding Inc., which is in turn owned as to 50%, 25% and 25% by Mr. Xuan, Mr. Kuang and Mr. Huang respectively; and (ii) Mr. Xuan personally holds 1,000,000 Shares, representing approximately 0.10% of the entire issued share capital of the Company.

Condition precedent

Completion of the S&P Agreement shall be conditional upon the Company having obtained the approval by the Directors and Shareholders at the EGM for the S&P Agreement and the transactions contemplated thereunder (including but not limited to the transfer of the Sale Interests) in accordance with the applicable laws, rules and articles of association of the Company.

If the condition precedent set out above is not fulfilled within 90 days from the date of the S&P Agreement (or such later date as Tibet Consen and the Purchaser may agree in writing), unless Tibet Consen and the Purchaser agree otherwise, the S&P Agreement will terminate and no party to the S&P Agreement shall have any claim against the other party in respect of the S&P Agreement, (save for (a) the non-fulfillment of the condition precedent as a result of the intentional breach by any party to the S&P Agreement and (b) any antecedent breaches and certain provisions of the S&P Agreement relating to liability for breach of the S&P Agreement and dispute resolution which will remain in full force and effect) and Tibet Consen shall within 5 business days after the termination of the S&P Agreement return to the Purchaser the part of Consideration paid by the Purchaser. For the avoidance of doubt, in the event that the relevant resolution for approving the S&P Agreement and the transactions contemplated thereunder is voted down by the Shareholders (other than Consen Group and Mr. Xuan) at the EGM, the Company's PRC legal advisers do not consider that this would constitute an intentional breach by Tibet Consen under the S&P Agreement (unless wilfully caused by any inappropriate acts of Tibet Consen). In the event that such resolution is voted down by the Shareholders, which is wilfully caused by any inappropriate acts of Tibet Consen, Tibet Consen may be in breach of the terms of the S&P Agreement and liable for the losses incurred by the Purchaser under the S&P Agreement. In these circumstances, the Purchaser is entitled to terminate the S&P Agreement and require Tibet Consen to pay 50% of the total Consideration for breach of the S&P Agreement.

Completion

Pursuant to the S&P Agreement, Tibet Consen shall, (a) within one business day after the fulfillment of the condition precedent, notify the Purchaser in writing to settle the second instalment of the Consideration and obtain the relevant approval from its equity-holders in respect of the transfer of the Sale Interests; (b) within five business days after receipt of the second instalment of the Consideration from the Purchaser and the transfer by the Purchaser of the third instalment of the Consideration to the Escrow Account, coordinate with Beijing Jiaoda Microunion to convene the equity-holders' meeting for approving the amendment to the constitutional documents of Beijing Jiaoda Microunion and appointment of directors and supervisors nominated by the Purchaser; and (c) prompt Beijing Jiaoda Microunion to apply for change of the business registration within five business days after the approval of the Disposal by the equity-holders of Beijing Jiaoda Microunion and the other equity-holders of Beijing Jiaoda Microunion having forgone their pre-emptive rights in relation to the Sale Interests in writing, and coordinate with Beijing Jiaoda Microunion to complete the registration procedures as soon as possible.

The other equity-holders of Beijing Jiaoda Microunion have agreed to forgo their pre-emption rights to the Sale Interests in writing.

Completion shall take place upon all procedures for the registration of the Sale Interests in the name of the Purchaser with the relevant governmental authorities pursuant to the S&P Agreement having been completed.

INFORMATION ON THE PURCHASER

The Purchaser is a limited partnership established in the PRC in September 2014 and managed by Wah Tai, being an investment management fund. The Purchaser is an investment arm promoted and owned as to 0.5% and 99.5% by Wah Tai and 北京華泰瑞聯併購基金中心(有限合夥) (transliterated as Beijing Wah Tai Rui Lian Merger and Acquisition Fund Centre (Limited Partnership)) ("**Beijing Wah Tai**") respectively. Beijing Wah Tai has paid up investment fund of RMB1,000 million after completion of its first phase of fund-raising exercise. The Purchaser is principally engaged in the investment holding of equity investments in different industries over the areas in the PRC. As at the Latest Practicable Date, the Purchaser does not hold any investments. The Purchaser was introduced by business associates of the Group to the Company.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, (i) the Purchaser and its ultimate beneficial owners are independent of and not connected with the Company or any of its connected persons; and (ii) none of the Purchaser and any of its associates (as defined in the Listing Rules) has any (whether current or prior) relationship or business arrangements/ transactions with the Company and any of its connected persons, other than the transactions contemplated under the S&P Agreement.

INFORMATION ON BEIJING JIAODA MICROUNION

Beijing Jiaoda Microunion is a limited liability company established in the PRC on 12 April 2000 with registered and paid up capital of RMB100.0 million. As at the Latest Practicable Date, Beijing Jiaoda Microunion is beneficially owned as to 76.7% by Tibet Consen and 23.3% by the other two corporate equity-holders which respectively are third parties independent of the Company and any of its connected persons.

Beijing Jiaoda Microunion is principally engaged in the design, development and sales of railway signaling systems in the PRC, and has been a major supplier of railway station computerised interlocking software and system integration (車站計算機聯鎖系統軟件和系統集成) and is one of the only four licensees in the PRC holding the relevant licence granted by the former 中華人民共和國鐵道部 (Ministry of Railways of the PRC) (now known as 中國鐵路總公司 (China Railway Corporation)) for the provision of railway station computerised interlocking software and system integration.

Based on the unaudited financial information of Beijing Jiaoda Microunion prepared in accordance with the Group's accounting policies and International Financial Reporting Standards, the profit before and after taxation (i) for the year ended 31 December 2013 were approximately RMB48.7 million and RMB41.9 million respectively; and (ii) for the year ended 31 December 2014 were approximately RMB47.1 million and RMB41.3 million respectively.

Based on the same unaudited financial information of Beijing Jiaoda Microunion prepared in accordance with the Group's accounting policies and International Financial Reporting Standards, the net asset value of Beijing Jiaoda Microunion was approximately RMB378.7 million as at 31 December 2014.

Details of the unaudited financial information of Beijing Jiaoda Microunion are set out in Appendix II to this circular. The unaudited financial information of Beijing Jiaoda Microunion has been reviewed by the Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in accordance with International Standard on Review Engagements 2400, "Engagement to Review of Financial Statements" issued by International Auditing and Assurance Standards Board and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants. There was no qualification or modification in the review report issued by the reporting accountant.

Upon Completion, Beijing Jiaoda Microunion will cease to be a subsidiary of the Company, and the profit and loss and assets and liabilities of Beijing Jiaoda Microunion will no longer be consolidated into the financial statements of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the system design, integration and sale of safety and critical control systems for petrochemical, railway and other industries, provision of maintenance and engineering services, trading of equipment, software design and sales. The Group is the largest integrated solution provider of safety and critical control systems in the petrochemical industry, the largest domestic manufacturer of control valves, and one of the largest solution providers of railway signaling systems as well as a qualified supplier of traction and auxiliary power supply related systems and equipment in the railway industry in the PRC.

Following Completion, the Remaining Group will continue to be principally engaged in its afore-mentioned existing business activities, other than the business of design, development and sales of railway signaling systems for national railways carried out by Beijing Jiaoda Microunion. The Directors believe that the Disposal would not lead to the Remaining Group's business operation/development materially deviating from its original core businesses in the future. The Directors confirm that neither the Group nor the Board has any present intention for (i) entering into of any arrangement, agreement, understanding and/or reaching any conclusion with any parties for any disposal, termination or scaling down of the remaining businesses after the Disposal; (ii) injection of any other new business to the Group; and (iii) conducting any change in the shareholding structure of the Company. Furthermore, the Remaining Group will continue to carry on its existing business of design, development and sales of signaling system in the non-public industrial railway market with different target customers after Completion.

In 2014, the Board has approved and adopted a prudent financial strategy to lower the leverage of the Group and further enhance its liquidity given the challenging environment the Group is facing amid the slide of crude oil price and the reduction of capital expenditure by the large oil companies. As such, the Directors consider repaying the outstanding guarantee notes in order to improve the leverage and liquidity positions of the Group.

Following the Wenzhou high-speed train crash incident in 2011, the railway industry of the PRC had undergone significant reform, the operating scale and profitability of Beijing Jiaoda Microunion had been far below that of the Group's original expectation at the time of its acquisitions in 2008, which was about 150% over its recent performance for the past two years. The Directors believe that the railway equipment industry in China has reached its peak and it is expected to be leveled off in the forthcoming years on the basis of their estimation that the "四縱四橫高速鐵路網絡 (four-vertical and four-horizontal high-speed railway network)" getting across the nation in China has substantially been completed in recent years while further construction and development works will be slowing down. The Company expects that the recent PRC government policy of "一帶一路 (one belt one road)" on the railway equipment industry in China would bring good business opportunity to the industry in the long run, although not in the short-term or medium-term future. However, the Group considers that this "one belt one road" concept is still at its very preliminary stage, actual implementation in the future would involve many difficulties and technical issues, while the ultimate benefits that may be brought into the railway equipment industry in China would be uncertain.

The Directors believe that the Consideration of RMB811.65 million is a satisfactory selling price and it is a good chance for the Group to realize its long-term investment in Beijing Jiaoda Microunion, given the fact that the historical cost of acquiring the 76.7% equity interest in Beijing Jiaoda Microunion merely amounted to approximately RMB303.5 million; and the Group had already received a dividend payment of approximately RMB168.7 million since its acquisitions in 2008 and up to the Latest Practicable Date.

Taking into account the above-mentioned factors, the Directors consider that the terms of the S&P Agreement, including the Consideration, are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The net proceeds from the Disposal are estimated to be approximately RMB745.7 million, of which approximately RMB552.6 million is intended to be used for repayment of the guaranteed notes (they will fall due on 20 April 2016 with coupon interest rate of 7.75% per annum on the outstanding principal amount); and approximately RMB193.1 million is intended to be applied for general working capital purpose of the Group. The Directors will review the Group's liquidity and gearing positions from time to time, and then allocate appropriate proportion of the net proceeds for such usages as they consider them to be in the best interests of the Group.

FINANCIAL EFFECTS OF THE DISPOSAL

Upon Completion, Beijing Jiaoda Microunion will cease to be a subsidiary of the Company and the financial results and position of Beijing Jiaoda Microunion will be deconsolidated from the financial statements of the Group.

Based on the financial information of Beijing Jiaoda Microunion as at 31 December 2014, the estimated net gain on the Disposal will amount to approximately RMB234.7 million after deduction of the direct related expenses and the effect on income tax for the gain on the Disposal. The details of the estimated gain on the Disposal are set out in note (IV)(c) in Appendix III to this circular.

The estimated gain on the Disposal is prepared for illustrative purpose only. The actual gain on the Disposal will be derived based on the net assets, goodwill and non-controlling interests of Beijing Jiaoda Microunion derecognised on the date when the Group loses control in Beijing Jiaoda Microunion, which is expected to be the date of Completion and may not be the same as the figures derived for illustration.

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, assuming that Completion had taken place on 31 December 2014, the consolidated net asset of the Company as at 31 December 2014 attributable to the owners of the Company would be approximately RMB2,110,752,000, comprising consolidated total assets of approximately RMB4,659,760,000 and consolidated total liabilities of approximately RMB2,356,122,000 when compared to the same respective positions of approximately RMB1,876,006,000, RMB4,699,204,000 and RMB2,497,202,000 before Completion. Furthermore, according to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, the net profit attributable to the owners of the Company for the year ended 31 December 2014 would be approximately RMB242,457,000 when compared to that of approximately RMB35,272,000 before Completion.

FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

Following the Disposal, the Remaining Group will continue to be principally engaged in its existing business activities, other than the business of design, development and sales of railway signaling systems for national railways. The Directors believe that the Disposal would not lead to the Remaining Group's business operation/development materially deviating from its original core businesses in the future. The Remaining Group will strive to maintain its leading position in the petrochemical and railway industries, where it operates its core businesses namely safety and critical control systems and control valves in the petrochemical and coal chemical industries; railway signaling systems in the non-national and industrial railways; traction and auxiliary power supply systems in the railway industry in China.

The Directors do not consider that there will be potential competition in relation to the business of railway signaling systems between the Remaining Group and the Purchaser upon Completion. The railway signaling system business of Beijing Jiaoda Microunion currently involves the provision of railway signaling systems for the national railways in the PRC, while the railway signaling system business of the Remaining Group involves the provision of railway signaling systems for local, non-national and industrial railways in the PRC and as such, there is no overlapping of client base or market segments. The Remaining Group currently has no intention to branch into such business segment of Beijing Jiaoda Microunion. The Directors currently believe that Beijing Jiaoda Microunion would not participate in the business market of provision of the non-national and industrial railway signaling systems in the PRC, because it has no business track record in this market while the future development capacity as well as net profit margin are relatively unattractive/ limited when compared to that of the national railway segment. The target customers of the non-national and industrial railway signaling system market, such as coal, iron and steel industries, have not been operating well, so their demand for new and/or up-graded railway signaling system has been sluggish in the recent years. On such basis, the Group believes that Beijing Jiaoda Microunion would not be a newcomer to this market segment in the near future.

The Directors have considered that the Disposal would not bring in potential business competition between the Remaining Group and the Purchaser after Completion, while it will provide a good chance for the Group to realize its long-term investment in Beijing Jiaoda Micrunion with considerable net gain on the Disposal of approximately RMB234.7 million, which is almost 6.7 times of the net profit of the Group for the year ended 31 December 2014. On such basis, the Board considers that the Disposal is in the interests of the Company and the Shareholders as a whole.

For the petrochemical segment, the Remaining Group will continue to focus on developing its control valve business and enhance further its overall competitive advantages in research and development, sales and marketing, production, and internal operation. The Remaining Group will continue to develop high-end control valves to tap opportunities from the localization policies of industrial products in China. In addition, the Remaining Group will sustain efforts in extending applications of its safety control systems to the upstream oil and gas sectors as well as metallurgical, power, nuclear and other industries. Meanwhile, the Remaining Group seeks to increase revenue contribution from its recurring engineering and maintenance services with a better service team and more value-added service offerings.

For the railway segment, the Remaining Group will develop its traction and auxiliary power supply system business further. The Remaining Group will endeavour in its additional efforts in securing more urban rail transit traction system projects.

By leveraging the robustness in its core businesses of safety and critical control systems, control valves, and traction and auxiliary power supply systems, the Remaining Group strives to maximize return for the Shareholders.

IMPLICATIONS UNDER THE LISTING RULES

As one of the applicable percentage ratios for the Disposal under the Listing Rules is more than 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the Shareholders' approval at the EGM.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the S&P Agreement and the transactions contemplated thereafter. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are independent of and not connected with the Company or any of its connected persons and therefore no Shareholder is required to abstain from voting at the EGM and all the Shareholders are eligible to vote on the resolution(s) in respect of the Disposal to be proposed at the EGM.

RECOMMENDATION

The Directors are of the view that the S&P Agreement is fair and reasonable, and is in the interests of the Company and the Shareholders as a whole. The Board recommends the Shareholders to vote in favour of the resolution to approve the S&P Agreement and the transactions contemplated thereunder at the forthcoming EGM.

GENERAL

Your attention is also drawn to the additional information in respect of the Company set out in the appendices to this circular.

Yours faithfully,
By order of the Board
China Automation Group Limited
Xuan Rui Guo
Chairman

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years ended 31 December 2012, 2013 and 2014 with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited statement of financial position together with the notes on the annual financial statements for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 31 December 2014 has been set out on pages 34 to 101 of the annual report 2014 of the Company which will be posted on 24 April 2015 on the Stock Exchange's website (http://www.hkexnews.hk).

The audited consolidated financial statements of the Group for the year ended 31 December 2013 has been set out on pages 34 to 107 of the annual report 2013 of the Company which was posted on 24 April 2014 on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2013:

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0424/LTN20140424936.pdf

The audited consolidated financial statements of the Group for the year ended 31 December 2012 has also been set out on pages 38 to 111 of the annual report 2012 of the Company which was posted on 18 April 2013 on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2012:

http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0418/LTN20130418289.pdf

MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

For the year ended 31 December 2014

Operation and business review

For the year ended 31 December 2014, revenue of the Remaining Group decreased by approximately 3.5% to RMB1,918.5 million (2013: approximately RMB1,989.0 million), compared with that of the previous year. The decline in revenue was mainly due to the weak economic growth in China and the deep slide in oil prices dampened demand from the petrochemical and coal chemical industries.

Revenue generated from the Remaining Group's petrochemical segment shrank by approximately 7.1% to RMB1,624.6 million (2013: approximately RMB1,747.9 million), whereas revenue generated from the railway segment increased by approximately 21.9% to RMB293.9 million (2013: approximately RMB241.1 million) for the year ended 31 December 2014.

In terms of operating segment, 84.7% (2013: 87.9%) of the Remaining Group's revenue was generated from petrochemical segment while approximately 15.3% (2013: 12.1%) from railway segment.

Gross profit of the Remaining Group for the year ended 31 December 2014 amounted to approximately RMB620.9 million (2013: approximately RMB664.5 million), representing a decrease of RMB43.6 million or 6.6% over the previous year. The overall gross profit margin of the Remaining Group decreased by 1.0 percentage point to approximately 32.4% (2013: approximately 33.4%) for the year ended 31 December 2014. The decline in overall gross profit margin was mainly dragged down by the decrease in margin for the control valve business segment.

The Remaining Group recorded approximately RMB7.7 million in profit attributable to equity holders of the Company for the year ended 31 December 2014 (2013: profit of RMB45.5 million). The significant decrease in profit attributable to equity holders for the year ended 31 December 2014 was due to (i) decrease in turnover by approximately 3.9% as well as the decline in gross profit margin by 1 percentage point in 2014; and (ii) net foreign exchange loss of RMB12.5 million (2013: gain of approximately RMB7.4 million) which was resulted from the execution of a distribution contract denominated in Japanese Yen.

Liquidity, financial resources and capital structure

The Group has been adopting prudent financial and treasury policies over the years with an objective of a healthy long-term development. The Remaining Group's liquidity position had remained strong. As at 31 December 2014, the current ratio of the Remaining Group stood at a healthy level of 2.7 times (2013: 2.5 times).

As at 31 December 2014, cash and bank balances (including pledged bank deposits) of the Remaining Group amounted to approximately RMB387.2 million (2013: approximately RMB427.1 million), of which, approximately RMB80.4 million (2013: RMB106.2 million) were denominated in currencies other than Renminbi, including Japanese Yen, United States Dollars, Euro, Hong Kong Dollars, Singaporean Dollars and Great Britain Pounds. The net equity of the Group as at 31 December 2014 increased by approximately 2.6% to approximately RMB1,823.3 million (2013: approximately RMB1,776.6 million).

The Company had the outstanding guaranteed notes with 7.75% coupon interest rate per annum and the aggregate principal amount of US$192 million (equivalent to approximately RMB1,160.8 million) and maturity date on 20 April 2016 (the "**2016 Guaranteed notes**") which are unsecured, unconditionally and irrecoverably guaranteed by certain oversea subsidiaries of the Company. The 2016 Guaranteed notes are listed on the Singapore Exchange Securities Trading Limited. The Remaining Group may at its option redeem the notes at a redemption price of (i) 107.750% prior to 20 April 2014, (ii) 103.875% during the period from 20 April 2014 to 20 April 2015, and (iii) 101.9375% on 20 April 2015 and thereafter. The effective interest rate is approximately 8.74% per annum after being adjusted for transaction costs. There was no repurchase of the 2016 Guaranteed notes during the years ended 31 December 2014 and 2013.

Gearing position

The net gearing (total borrowings less cash over equity) ratio of the Remaining Group was at approximately 60.1% as at 31 December 2014 (2013: approximately 65.9%). As at 31 December 2014, the total borrowings of the Remaining Group amounted to approximately RMB1,482.3 million (2013: approximately RMB1,598.2 million). The total borrowings mainly comprised the guaranteed notes which amounted to approximately RMB1,160.8 million (equivalent to US$192 million) issued in April 2011.

As at 31 December 2014, the Remaining Group had committed bank borrowing facilities of approximately RMB510.9 million (2013: approximately RMB602.9 million); and outstanding bank borrowings of approximately RMB321.5 million (2013: approximately RMB390.5 million) with maturity within one year, of which, approximately RMB67.2 million (2013: approximately RMB75.1 million) were denominated in United States Dollars, Japanese Yen and Euro. All the bank borrowings of the Remaining Group were charged at floating interest rates ranging from 2.24% to 8.63% (2013: 2.64% to 8.63%) per annum for the year ended 31 December 2014. No bank borrowings of the Remaining Group were charged at fixed interest rates during the year (2013: nil).

Significant investments, mergers and acquisitions

For the year ended 31 December 2014, the Remaining Group had no significant investments, mergers and acquisitions.

Contingent liabilities

As at 31 December 2014, the Remaining Group had no material contingent liabilities.

Foreign exchange exposure

The Remaining Group had considerable exposure to fluctuations in exchange rates and related hedges as at 31 December 2014, which had recorded net exchange loss of approximately RMB12.5 million (2013: net exchange gain of approximately RMB7.4 million). The Group's foreign currency net investments had not been hedged by currency borrowings or any other hedging instruments.

Pledge of assets

As at 31 December 2014, certain of the Remaining Group's assets were pledged to secure banking facilities granted to the Remaining Group or to obtain corporate guarantee from an independent third party for the banking facilities. The aggregate carrying amounts of the assets of the Remaining Group pledged as at 31 December 2014 are as follows: buildings amounted to RMB158,625,000 (2013: RMB163,665,000), land use rights amounted to RMB51,657,000 (2013: RMB48,971,000), trade receivables amounted to RMB60,000,000 (2013: RMB30,000,000), bills receivable amounted to RMB48,600,000 (2013: RMB11,300,000), pledged bank deposits amounted to RMB104,225,000 (2013: RMB131,309,000), and inventories amounted to RMB66,346,000 (2013: RMB80,004,000).

The amounts disclosed above includes the assets of the Remaining Group pledged as at 31 December 2014 to obtain corporate guarantee from an independent third party for the banking facilities of RMB50,000,000 (2013: RMB38,959,000) granted to the Remaining Group. The aggregate carrying amount of these assets are as follows: buildings amounted to approximately RMB28,134,000 (2013: RMB29,292,000); and land use right amounted to approximately RMB7,767,000 (2013: RMB8,001,000). In addition, the Remaining Group paid approximately RMB1,125,000 (2013: RMB622,000) to the independent third party for the corporate guarantees provided.

Employees and remuneration policies

As at 31 December 2014, the Remaining Group had a total of 2,461 employees (2013: 2,611). The decrease in staff headcount was mainly attributable to the business restructuring programme that saw scaling back of the non-profit making business units; retrenching redundant staff so as to enhance the Remaining Group's overall operational efficiency and to maintain its competitiveness.

The emoluments payable to the employees of the Remaining Group amounted to approximately RMB300.1 million (2013: approximately RMB327.7 million) are determined by their responsibilities, qualifications, performance and experience and the related industrial practices.

For the year ended 31 December 2013

Operation and business review

The Remaining Group's safety and critical control related business remained stable despite a slowdown in China's economic growth in 2013. As at 31 December 2013, the Remaining Group successfully completed and delivered approximately 298 sets of systems, bringing the cumulative number of delivered systems to approximately 2,844 sets. The Remaining Group secured large-scale projects in 2013 from renowned petrochemical and coal-chemical related companies. In addition, as a qualified vendor for certain multi-national renowned corporations and manufacturers, the Remaining Group continued to win new contracts in 2013 from these multinational corporations.

The Remaining Group's customized safety and critical control system services were becoming more and more popular and achieved moderate growth in the provision of engineering and maintenance services business. The Remaining Group was awarded "Excellent Brand for Engineering Maintenance (工程服務品牌獎)" and "Excellent Brand for After-Sales Service (售後服務能力品牌獎)" as one of its service brands.

With the continuous efforts in sales and marketing, production, internal operation, and R&D, the Remaining Group's control valve business achieved robust significant organic growth in 2013. The Remaining Group's strength of control valve business also lies on its engineering and maintenance services. Wuzhong Instrument has established a strong control valve engineering and maintenance service team. Building on years of experience, the Remaining Group's control valve engineering and maintenance service team can undertake plant-wide control valve engineering and maintenance services for both its own products and the products made by other companies, including first-tier multinational corporations. In 2013, the maintenance services made a considerable contribution to the profit, and also secured more new orders which were used to replace the control valves manufactured by other producers.

The Remaining Group continued to invest in R&D during the year. In 2013, the Remaining Group undertook several national R&D projects awarded by National Development and Reform Commission, the Ministry of Science and Technology, and the Ministry of Industry and Information Technology, etc. In this regard, several control valves and devices have been put into commercial production. The outcomes of its R&D projects have been highly recognized.

The Remaining Group's business of on-board auxiliary power supply systems and related products has been heavily affected by the institutional change of national railway sector in 2013. As the newly established China Railway Corporation focused on its internal structuring, no tendering for equipment was conducted in the first half of 2013. Thus, the Remaining Group's revenue from related business dropped significantly in 2013. However, the Remaining Group achieved milestone breakthrough in traction systems applied in metro projects. The Remaining Group together with ABB Microunion won its first subway contracts of traction systems for Guangzhou Subway Line 9. In addition, the Remaining Group won its second traction systems project for Nanjing Subway Line 1 as a general contractor. With the track records of these two projects, the management of the Remaining Group believes that it will be able to capture the potential opportunity of the huge metro market in the future.

For the year ended 31 December 2013, revenue of the Remaining Group increased by approximately 3.9% to RMB1,989.0 million (2012: approximately RMB1,914.2 million), compared with that of the previous year.

In terms of operating segment, 87.9% (2012: 76.8%) of the Group's revenue was generated from petrochemical segment while 12.1% (2012: 23.2%) from railway segment.

Revenue generated from the Remaining Group's petrochemical segment increased by approximately 18.9% to RMB1,747.9 million (2012: approximately RMB1,470.5 million), whereas revenue generated from the railway segment shrank by approximately 45.7% to RMB241.1 million (2012: approximately RMB443.7 million) for the year ended 31 December 2013.

Gross profit of the Remaining Group for the year ended 31 December 2013 amounted to approximately RMB664.5 million (2012: approximately RMB728.9 million), representing a decrease of approximately RMB64.4 million or 8.8% over the previous year. The overall gross profit margin of the Remaining Group decreased by 4.7 percentage points to approximately 33.4% (2012: approximately 38.1%) for the year ended 31 December 2013. The significant decline in gross profit margin was mainly due to the significant decline in gross profit margin in relation to safety and critical control system and engineering design business segment of which margin decreased by 11.8 percentage points resulting from losses recorded for two overseas metering projects and also lower-margin works booked for works related to procurement and project management.

The Remaining Group recorded approximately RMB45.5 million in profit attributable to equity holders of the Company for the year ended 31 December 2013 (2012: approximately RMB86.5 million), representing a decline of approximately RMB41.0 million or 47.4% when compared with that of the previous year. The decline was mainly due to the significant decline in gross profit margin as explained in the above paragraph.

Liquidity, financial resources and capital structure

The Group has been adopting prudent financial and treasury policies over the years with an objective of a healthy long-term development. The Remaining Group's liquidity position had remained strong. As at 31 December 2013, the current ratio of the Remaining Group stood at a healthy level of 2.5 times (2012: 2.6 times).

As at 31 December 2013, cash and bank balances (including pledged bank deposits) of the Remaining Group amounted to approximately RMB427.1 million (2012: approximately RMB425.1 million), of which, approximately RMB106.2 million (2012: RMB54.0 million) were denominated in currencies other than Renminbi, including Japanese Yen, United States Dollars, Euro, Hong Kong Dollars, Singaporean Dollars and Great Britain Pounds. The net equity of the Remaining Group as at 31 December 2013 increased by approximately 5.8% to approximately RMB1,776.6 million (2012: approximately RMB1,680 million).

The Company had the outstanding 2016 Guaranteed notes with 7.75% coupon interest rate per annum and aggregate principal amount of US$192 million (equivalent to approximately RMB1,146.9 million) and maturity date on 20 April 2016 which are unsecured, unconditionally and irrecoverably guaranteed by certain oversea subsidiaries of the Company. The 2016 Guaranteed notes are listed on the Singapore Exchange Securities Trading Limited. The Group may at its option early redeem the notes at a redemption price of (i) 107.750% prior to 20 April 2014, (ii) 103.875% between the period from 20 April 2014 to 20 April 2015, and (iii) 101.9375% on 20 April 2015 and thereafter. The effective interest rate of the 2016 Guaranteed notes is approximately 8.74% per annum after adjusted for transaction costs. There was no repurchase during the year ended 31 December 2013.

Gearing position

The net gearing (total borrowings less cash over equity) ratio of the Remaining Group was at approximately 65.9% as at 31 December 2013 (2012: approximately 62.1%). As at December 2013, the total borrowings of the Remaining Group amounted to approximately RMB1,598.2 million (2012: approximately RMB1,468.6). The total borrowings mainly comprised the 2016 Guaranteed notes which amounted to approximately RMB1,146.9 million (equivalent to US$192 million) issued in April 2011.

As at 31 December 2013, the Remaining Group had committed bank borrowing facilities of approximately RMB602.9 million (2012: approximately RMB546.7 million); and outstanding bank borrowings of approximately RMB390.5 million (2012: approximately RMB295.5 million) with maturity within one year, of which, approximately RMB75.1 million (2012: approximately RMB37.4 million) were denominated in United States Dollars and Euro. All the bank borrowings of the Remaining Group were charged at floating interest rates ranging from 2.64% to 8.63% (2012: 2.66% to 7.87%) per annum for the year ended 31 December 2013. No bank borrowings of the Remaining Group were charged at fixed interest rates during the year (2012: nil).

Significant investments, mergers and acquisitions

For the year ended 31 December 2013, the Remaining Group had no significant investments, mergers and acquisitions.

Contingent liabilities

As at 31 December 2013, the Remaining Group had no material contingent liabilities.

Foreign exchange exposure

The Remaining Group had considerable exposure to fluctuations in exchange rates and related hedges as at 31 December 2013, which had recorded a net exchange gain of approximately RMB7.4 million (2012: net exchange loss of RMB0.5 million). The Group's foreign currency net investments had not been hedged by currency borrowings or any other hedging instruments.

Pledge of assets

As at 31 December 2013, certain of the Remaining Group's assets were pledged to secure banking facilities granted to the Remaining Group or to obtain corporate guarantee from an independent third party for the banking facilities. The aggregate carrying amount of the assets of the Remaining Group pledged as at 31 December 2013 was as follows: buildings amounted to RMB163,665,000 (2012: RMB160,101,000), land use rights amounted to RMB48,971,000 (2012: RMB50,617,000), trade receivables amounted to RMB30,000,000 (2012: RMB30,000,000), bills receivable amounted to RMB11,300,000 (2012: RMB651,000), pledged bank deposits amounted to RMB131,309,000 (2012: RMB83,191,000), and inventories amounted to RMB80,004,000 (2012: nil).

The amounts disclosed above includes the assets of the Remaining Group pledged as at 31 December 2013 to obtain corporate guarantee from an independent third party for the banking facilities of RMB38,959,000 (2012: RMB45,000,000) granted to the Remaining Group. The aggregate carrying amount of these assets are as follows: buildings amounted to approximately RMB29,292,000 (2012: RMB30,450,000); and land use right amounted to approximately RMB8,001,000 (2012: RMB8,236,000). In addition, the Remaining Group paid approximately RMB622,000 (2012: RMB619,000) to the independent third party for the corporate guarantees provided.

Employees and remuneration policies

As at 31 December 2013, the Remaining Group had a total of 2,611 employees (2012: 2,715). The decrease in staff headcount was mainly attributable to the business restructuring in the petrochemical business segment.

The emoluments payable to the employees of the Remaining Group amounted to approximately RMB327.7 million (2012: approximately RMB227.4 million) are determined by their responsibilities, qualifications, performance and experience and the related industrial practices.

For the year ended 31 December 2012

Operation and business review

For the year ended 31 December 2012, revenue of the Remaining Group amounted to approximately RMB1,914.2 million.

Revenue generated from the petrochemical segment amounted to approximately RMB1,470.5 million whereas revenue generated from the railway segment recorded at approximately RMB443.7 million for the year ended 31 December 2012.

In terms of operating segment, 76.8% of the Remaining Group's revenue was generated from petrochemical segment while 23.2% from railway segment.

Gross profit of the Remaining Group for the year ended 31 December 2012 amounted to approximately RMB728.9 million. The overall gross profit margin of the Remaining Group was at 38.1% for the year ended 31 December 2012.

The Remaining Group recorded approximately RMB86.5 million in profit attributable to equity holders of the Company for the year ended 31 December 2012.

Liquidity, financial resources and capital structure

The Group's liquidity position had remained strong.

As at 31 December 2012, the current ratio of the Remaining Group stood at a healthy level of 2.6 times.

As at 31 December 2012, cash and bank balances (including pledged bank deposits) of the Remaining Group amounted to approximately RMB425.1 million, of which, approximately RMB54.0 million were denominated in currencies other than Renminbi, including Japanese Yen, United States Dollars, Euro, Hong Kong Dollars, Singaporean Dollars and Great Britain Pounds. The net equity of the Remaining Group as at 31 December 2012 was recorded at approximately RMB1,680 million.

The Company issued the 2016 Guarantee notes with coupon interest rate of 7.75% per annum and aggregate principal amount of US$200 million (equivalent to approximately RMB1,306.4 million) and maturity date on 20 April 2016 which are unsecured, unconditionally and irrecoverably guaranteed by certain oversea subsidiaries of the Remaining Group. The 2016 Guaranteed notes are listed on the Singapore Exchange Securities Trading Limited. The Remaining Group may at its option early redeem the 2016 Guarantee notes at a redemption price of (i) 107.750% prior to 20 April 2014, (ii) 103.875% during the period from 20 April 2014 to 20 April 2015, and (iii) 101.9375% on 20 April 2015 and thereafter. The effective interest rate is approximately 8.74% per annum after adjusted for transaction costs. During the year ended 31 December 2012, the Remaining Group repurchased the 2016 Guaranteed notes with the aggregate principal amount of US$1,000,000 (equivalent to approximately RMB6,302,000) and a gain of approximately RMB1,295,000 was recognised in the profit or loss.

Gearing position

The net gearing (total borrowings less cash over equity) ratio was at approximately 62.1% as at 31 December 2012. As at 31 December 2012, the total borrowings of the Remaining Group amounted to approximately RMB1,468.6 million. The total borrowings mainly comprised the guaranteed notes amounted to approximately RMB1,173.1 million (equivalent to US$192 million) issued in April last year.

As at 31 December 2012, the Remaining Group had committed bank borrowing facilities of approximately RMB546.7 million; and outstanding bank borrowings of approximately RMB295.5 million with maturity within one year, of which, approximately RMB37.4 million were denominated in United

States Dollars and Euro. All the bank borrowings of the Remaining Group were charged at floating interest rates ranging from 2.66% to 7.87% per annum for the year ended 31 December 2012. No bank borrowings of the Remaining Group were charged at fixed interest rates during the year.

Significant investments, mergers and acquisitions

For the year ended 31 December 2012, the Remaining Group completed (i) the acquisition of a further 50% equity interests in Wuzhong Instrument at a consideration of approximately RMB163.8 million; and (ii) investment of RMB25 million in an associate engaged in petrochemical equipment business.

Contingent liabilities

As at 31 December 2012, the Remaining Group had no material contingent liabilities.

Foreign exchange exposure

The Remaining Group did not have material exposure to fluctuations in exchange rates and related hedges as at 31 December 2012. The Group's foreign currency net investments had not been hedged by currency borrowings or any other hedging instruments.

Pledge of assets

As at 31 December 2012, certain of the Remaining Group's assets were pledged to secure banking facilities granted to the Remaining Group or to obtain corporate guarantee from an independent third party for the banking facilities. The aggregate carrying amount of the assets of the Group pledged as at 31 December 2012 was as follows: buildings amounted to RMB160,101,000, land use rights amounted to RMB50,617,000, trade receivables amounted to RMB30,000,000, bills receivable amounted to RMB651,000, and pledged bank deposits amounted to RMB83,191,000.

The amounts disclosed above included the assets of the Remaining Group pledged as at 31 December 2012 to obtain corporate guarantee from an independent third party for the banking facilities of RMB45,000,000 granted to the Remaining Group. The aggregate carrying amount of these assets are as follows: buildings amounted to approximately RMB30,450,000 and land use right amounted to approximately RMB8,236,000. In addition, the Remaining Group paid approximately RMB619,000 to the independent third party for the corporate guarantees provided.

Employees and remuneration policies

As at 31 December 2012, the Remaining Group had a total of 2,715 employees.

The emoluments payable to the employees of the Remaining Group amounted to approximately RMB227.4 million are determined by their responsibilities, qualifications, performance and experience and the related industrial practices.

INDEBTEDNESS

As at the close of business on 28 February 2015, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had total borrowings of RMB1,403,429,000. Details of which are as follows:

	RMB'000
Secured bank borrowings	235,294
Guaranteed notes	1,168,135
	1,403,429

Save as aforesaid and apart from intra-group liabilities and normal trade payable in the ordinary course of the business, as at the close of business on 28 February 2015, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Group, including the internally generated funds, the net proceeds to be received from the Disposal and the available banking facilities, the Group has, in the absence of unforeseeable circumstances, sufficient working capital for its present requirement for the next twelve months from the date of this circular.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited financial statements of the Company were made up.

Set out on pages 24 to 30 below are the unaudited consolidated statements of financial position of Beijing Jiaoda Microunion as at 31 December 2012, 2013 and 2014 and the unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows of Beijing Jiaoda Microunion for the years ended 31 December 2012, 2013 and 2014 (the "Relevant Periods"), and certain explanatory notes (the "Unaudited Consolidated Financial Information"). The Unaudited Consolidated Financial Information has been presented on the basis set out in Note 2 and prepared in accordance with the accounting policies adopted by the Company and paragraph 68(2)(a)(i) of Chapter 14 of the Listing Rules. The Unaudited Consolidated Financial Information is prepared by the Directors solely for the purpose of inclusion in this circular of the Company in connection with the Disposal. The Unaudited Consolidated Financial Information has been reviewed by the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in accordance with International Standard on Review Engagements 2400, "Engagement to Review of Financial Statements" issued by International Auditing and Assurance Standards Board and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants. There was no qualification or modification in the review report issued by the reporting accountants.

A. UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS OF BEIJING JIAODA MICROUNION AS AT 31 DECEMBER 2012, 2013 AND 2014

	At 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Non-current assets			
Property, plant and equipment	17,220	14,402	9,533
Deposit for acquisition of property, plant and equipment	–	–	321
Intangible assets	13,709	21,209	32,445
Deferred tax assets	14,465	20,691	25,473
	45,394	56,302	67,772
Current assets			
Inventories	31,766	30,873	43,309
Trade and bill receivables	358,561	265,581	249,856
Other receivables and prepayments	14,661	9,291	19,427
Amounts due from customers for contract work	68,095	59,148	46,812
Pledged bank deposits	9,865	9,578	14,639
Bank balances and cash	152,949	161,264	112,229
	635,897	535,735	486,272

	At 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Current liabilities			
Trade and bills payables	90,410	90,126	64,780
Other payables, deposits received and accruals	38,695	51,576	63,414
Amounts due to fellow subsidiaries	21,394	21,352	21,357
Dividend payable	–	20,000	–
Income tax payable	9,602	14,712	505
Bank borrowings	55,000	6,900	25,300
Corporate bonds	49,516	–	–
	264,617	204,666	175,356
Net current assets	371,280	331,069	310,916
Total assets less current liabilities	416,674	387,371	378,688
Capital and reserves			
Paid-in capital	100,000	100,000	100,000
Reserves	295,425	287,371	278,688
Total equity	395,425	387,371	378,688
Non-current liabilities			
Deferred income	21,249	–	–
Total equity and non-current liabilities	416,674	387,371	378,688

B. UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF BEIJING JIAODA MICROUNION FOR THE THREE YEARS ENDED 31 DECEMBER 2014

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	296,553	319,780	299,475
Cost of sales	(160,319)	(155,928)	(159,254)
Gross profit	136,234	163,852	140,221
Other income	19,585	22,577	23,232
Other gains and losses	(50,096)	(59,259)	(37,273)
Selling and distribution expenses	(12,085)	(12,207)	(11,324)
Administrative expenses	(49,160)	(42,369)	(48,602)
Research and development expenses	(18,370)	(19,315)	(18,960)
Other expenses	(4,001)	(200)	(100)
Finance costs	(6,780)	(4,385)	(107)
Share of results of an associate	(8,707)	–	–
Profit before taxation	6,620	48,694	47,087
Income tax expense	(3,705)	(6,748)	(5,770)
Profit and total comprehensive income for the year	2,915	41,946	41,317

C. UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OF BEIJING JIAODA MICROUNION FOR THE THREE YEARS ENDED 31 DECEMBER 2014

	Paid-in capital	**Statutory surplus reserve**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Note)		
At 1 January 2012	100,000	48,043	244,467	392,510
Profit and total comprehensive income for the year	–	–	2,915	2,915
Appropriations to reserves	–	291	(291)	–
At 31 December 2012	100,000	48,334	247,091	395,425
Profit and total comprehensive income for the year	–	–	41,946	41,946
Dividend paid	–	–	(50,000)	(50,000)
Appropriations to reserves	–	1,666	(1,666)	–
At 31 December 2013	100,000	50,000	237,371	387,371
Profit and total comprehensive income for the year	–	–	41,317	41,317
Dividend paid	–	–	(50,000)	(50,000)
Appropriations to reserves	–	1	(1)	–
At 31 December 2014	100,000	50,001	228,687	378,688

Note: The Company and its subsidiary were established in the People's Republic of China ("PRC") and are required to transfer 10% of the profit after taxation reported under the relevant accounting policies and financial regulations in the PRC to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity owners. The statutory surplus reserve can be used to make up previous year's losses, expand the existing operations or convert into additional capital of the subsidiary.

D. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS OF BEIJING JIAODA MICROUNION FOR THE THREE YEARS ENDED 31 DECEMBER 2014

	Year ended 31 December		
	2012	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Operating activities			
Profit before taxation	6,620	48,694	47,087
Adjustments for:			
Share of results of an associate	8,707	–	–
Finance costs	6,780	4,385	107
Depreciation of property, plant and equipment	5,736	6,292	6,436
Amortisation of intangible assets	2,609	2,609	1,620
Deferred income released to income	(18,813)	(21,249)	–
Loss (gain) on disposal of property, plant and equipment	12	3	(30)
Impairment losses on trade and other receivables	50,094	59,418	37,298
Interest income	(816)	(613)	(948)
Operating cash flows before movements in working capital	60,929	99,539	91,570
(Increase) decrease in inventories	(2,547)	893	(12,436)
Decrease (increase) in trade and bills receivables	28,631	33,562	(21,573)
Decrease (increase) in other receivables and prepayments	10,462	5,370	(10,136)
(Increase) decrease in amounts due from customers for contract work	(34,920)	8,947	12,336
Decrease in trade and bills payables	(5,509)	(284)	(25,346)
(Decrease) increase in other payables, deposits received and accruals	(2,816)	13,782	11,524
(Decrease) increase in amounts due to fellow subsidiaries	–	(42)	5
Cash generated from operations	54,230	161,767	45,944
Income tax paid	(1,009)	(7,864)	(24,759)
Net cash generated from operating activities	53,221	153,903	21,185

	Year ended 31 December		
	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Investing activities			
Interest received	816	613	948
Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment	(2,356)	(3,477)	(1,944)
Proceeds on disposal of property, plant and equipment	1	–	86
Development costs paid	(8,829)	(10,109)	(12,542)
Placement of pledged bank deposits	(1,303)	(4,423)	(11,279)
Withdrawal of pledged bank deposits	19,143	4,710	6,218
Net cash generated from (used in) investing activities	7,472	(12,686)	(18,513)
Financing activities			
New bank borrowings raised	90,230	27,900	25,300
Repayment of bank borrowings	(109,242)	(76,000)	(6,900)
Repayments of corporate bonds	–	(50,000)	–
Repayment to related parties	(60,000)	–	–
Interest paid	(6,663)	(4,802)	(107)
Dividends paid	–	(30,000)	(70,000)
Net cash used in financing activities	(85,675)	(132,902)	(51,707)
Net (decrease) increase in cash and cash equivalents	(24,982)	8,315	(49,035)
Cash and cash equivalents at beginning of the year	177,931	152,949	161,264
Cash and cash equivalents at end of the year, represented by bank balances and cash	152,949	161,264	112,229

E. NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

北京交大微聯科技有限公司 (transliterated as Beijing Jiaoda Microunion Technology Company Limited, "Beijing Jiaoda Microunion") is a limited liability company established in the PRC on 12 April 2000 with registered and paid up capital of RMB100.0 million.

Beijing Jiaoda Microunion and its subsidiary are principally engaged in the design, development and sales of railway signalling system in the PRC.

The consolidated financial information of Beijing Jiaoda Microunion ("Consolidated Financial Information") is presented in Renminbi ("RMB") which is the same as the functional currency of the Beijing Jiaoda Microunion.

2. BASIS OF PREPARATION

The Consolidated Financial Information has been prepared based on its statutory audited financial statements for each of the three years ended 31 December 2014 after taking any adjustments for realignment with the accounting policies and presentation adopted by China Automation Group Limited (the "Company"). Details of the principal accounting policies adopted by the Company are set out in the audited consolidated financial statements of the Company for the year ended 31 December 2014. These policies have been consistently applied to the three reporting periods presented and are in accordance with International Financial Reporting Standards.

The Consolidated Financial Information has been prepared in accordance with Rule 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is solely for the purposes of inclusion in the circular to be issued by the Company in connection with the proposed disposal of Beijing Jiaoda Microunion. It does not contain sufficient information to constitute a complete set of financial statements as defined in International Accounting Standard 1 "Presentation of Financial Statements" nor an interim financial report as defined in International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

The information set out in this appendix is included in this circular for information only.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is a summary of the illustrative unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows (collectively referred to as the "Unaudited Pro Forma Financial Information"), which have been prepared to illustrate the effect of the disposal of 北京交大微联科技有限公司 (transliterated as Beijing Jiaoda Microunion Technology Company Limited, "Beijing Jiaoda Microunion") (the "Disposal").

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the "Directors"), in accordance with Paragraph 4.29 of the Listing Rules for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 31 December 2014 or at any future dates or the results and cash flows of the Group for the year ended 31 December 2014 or at any future period.

The following Unaudited Pro Forma Financial Information is based on audited consolidated financial statements of the Group for the year ended 31 December 2014 as set out in the Company's 2014 annual report, and adjusted as follows:

(I) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Unadjusted amount of the Group	Pro forma adjustments		Pro forma adjusted amount of the remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)	(Unaudited)	(Unaudited)
	(Note a)	*(Note b)*	*(Note c)*	
Non-current assets				
Property, plant and equipment	498,295	(9,533)		488,762
Deposit for acquisition of property, plant and equipment	19,573	(321)		19,252
Prepaid lease payments – non-current portion	106,899			106,899
Intangible assets	463,060	(32,445)	(226,590)	204,025
Goodwill	141,792		(72,777)	69,015
Interests in associates	24,667			24,667
Interest in a joint venture	4,220			4,220
Pledged bank deposits	8,727			8,727
Deferred tax assets	45,328	(25,473)		19,855
Available-for-sale financial assets	64,217			64,217
Embedded derivative financial asset	47			47
	1,376,825			1,009,686
Current assets				
Prepaid lease payments – current portion	2,770			2,770
Inventories	749,609	(43,309)		706,300
Trade and bills receivables	1,846,394	(249,856)		1,596,538
Other receivables and prepayments	166,663	(19,427)	21,357	168,593
Amounts due from customers for contract work	51,545	(46,812)		4,733
Pledged bank deposits	110,167	(14,639)		95,528
Bank balances and cash	395,231	(112,229)	792,610	1,075,612
	3,322,379			3,650,074

	Unadjusted amount of the Group	Pro forma adjustments		Pro forma adjusted amount of the remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)	(Unaudited)	(Unaudited)
	(Note a)	*(Note b)*	*(Note c)*	
Current liabilities				
Trade payables	533,933	(64,780)		469,153
Other payables, deposits received and accruals	329,386	(63,414)		265,972
Dividend payable	6			6
Income tax payable	4,095	(505)	46,908	50,498
Bank borrowings – due within one year	346,757	(25,300)		321,457
	1,214,177			1,107,086
Net current assets	2,108,202			2,542,988
Total assets less current liabilities	3,485,027			3,552,674
Capital and reserves				
Share capital	9,548			9,548
Share premium and reserves	1,866,458		234,746	2,101,204
Equity attributable to owners of the Company	1,876,006			2,110,752
Non-controlling interests	325,996		(133,110)	192,886
Total equity	2,202,002			2,303,638
Non-current liabilities				
Deferred tax liabilities	63,294		(33,989)	29,305
Guaranteed notes	1,160,804			1,160,804
Deferred income	58,927			58,927
	1,283,025			1,249,036
Total equity and non-current liabilities	3,485,027			3,552,674

(II) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Unadjusted amount of the Group	Pro forma adjustments			Pro forma adjusted amount of the remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note a)	*(Note b)*	*(Note d)*	*(Note c)*	
Revenue	2,217,985	(299,475)			1,918,510
Cost of sales	(1,456,820)	159,254	6,334		(1,291,232)
Gross profit	761,165				627,278
Other income	66,964	(23,232)			43,732
Other gains and losses	(84,313)	37,273		281,654	234,614
Selling and distribution expenses	(173,512)	11,324			(162,188)
Administrative expenses	(256,447)	48,602			(207,845)
Research and development expenses	(102,936)	18,960			(83,976)
Other expenses	(1,003)	100			(903)
Finance costs	(130,383)	107			(130,276)
Share of results of associates	171				171
Share of results of a joint venture	(291)				(291)
Profit before taxation	79,415				320,316
Income tax expense	(32,670)	5,770	(950)	(46,908)	(74,758)
Profit for the year	46,745				245,558
Other comprehensive income for the year (net of tax)					
Items that maybe subsequently reclassified to profit or loss:					
Exchange differences arising on translation of foreign operations	1,524				1,524
Share of translation reserve of a joint venture	(326)				(326)
Total comprehensive income for the year	47,943				246,756
Profit for the year attributable to:					
Owners of the Company	35,272	(31,690)	4,129	234,746	242,457
Non-controlling interests	11,473	(9,627)	1,255		3,101
	46,745				245,558
Total comprehensive income for the year attributable to:					
Owners of the Company	36,470	(31,690)	4,129	234,746	243,655
Non-controlling interests	11,473	(9,627)	1,255		3,101
	47,943				246,756

(III) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Unadjusted amount of the Group	Pro forma adjustments		Pro forma adjusted amount of the remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)	(Unaudited)	(Unaudited)
	(Note a)	*(Note b)*	*(Note e)*	
Operating activities				
Profit before taxation	79,415	(47,087)	287,988	320,316
Adjustments for:				
Share of results of associates	(171)			(171)
Share of results of a joint venture	291			291
Finance costs	130,383	(107)		130,276
Depreciation of property, plant and equipment	48,225	(6,436)		41,789
Prepaid lease payments released	2,770			2,770
Amortisation of intangible assets	27,082	(1,620)	(6,334)	19,128
Deferred income released to income	(12,735)			(12,735)
Change in fair value of derivatives	3,907			3,907
(Gain) loss on disposal of property, plant and equipment	(256)	30		(226)
(Gain) on the Disposal	–		(281,654)	(281,654)
Impairment losses on trade and other receivables	68,144	(37,298)		30,846
Interest income	(3,569)	948		(2,621)
Dividends income earned on available-for-sale financial assets	(777)			(777)
Unrealised foreign exchange losses	4,157			4,157
Share-based payments expenses	1,735			1,735
Operating cash flows before movements in working capital	348,601			257,031
Decrease in inventories	1,095	12,436		13,531
Increase in trade and bills receivables	(100,685)	21,573		(79,112)
Decrease in other receivables and prepayments	36,179	10,136		46,315
Decrease in amounts due from customers for contract work	22,778	(12,336)		10,442
Increase in trade payables	108,480	25,346		133,826
Increase in deferred income	10,835			10,835
Decrease in other payables, deposits received and accruals	(162,176)	(11,524)		(173,700)
Cash generated from operations	265,107			219,168
Income tax paid	(60,051)	24,759	(46,908)	(82,200)
Net cash generated from operating activities	205,056			136,968

	Unadjusted amount of the Group	Pro forma adjustments		Pro forma adjusted amount of the remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Unaudited)	(Unaudited)	(Unaudited)
	(Note a)	*(Note b)*	*(Note e)*	
Investing activities				
Interest received	3,569	(948)		2,621
Dividend income received	777			777
Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment	(80,678)	1,944		(78,734)
Proceeds on disposal of property, plant and equipment	3,202	(86)		3,116
Net cash inflow from the Disposal	–		650,386	650,386
Transaction costs for the Disposal	–		(19,040)	(19,040)
Development costs paid	(36,111)	12,542		(23,569)
Placement of pledged bank deposits	(40,803)	11,279		(29,524)
Withdrawal of pledged bank deposits	62,796	(6,218)		56,578
Net cash used in investing activities	(87,248)			562,611
Financing activities				
New bank borrowings raised	463,564	(25,300)		438,264
Repayments of bank borrowings	(502,894)	6,900		(495,994)
Interest paid	(121,008)	107		(120,901)
Dividends paid to non-controlling shareholders	(16,310)			(16,310)
Net cash used in financing activities	(176,648)			(194,941)
Net decrease in cash and cash equivalents	(58,840)			504,638
Cash and cash equivalents at beginning of the year	457,103			457,103
Effect of foreign exchange rate changes	(3,032)			(3,032)
Cash and cash equivalents at end of the year	395,231			958,709

(IV) NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

(a) The unadjusted amount of the Group for unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows are extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2014.

(b) The adjustment reflects the exclusion of the assets and liabilities of Beijing Jiaoda Microunion assuming the Disposal had taken place on 31 December 2014 and the exclusion of the income and expenses and cash flows of Beijing Jiaoda Microunion, assuming the Disposal had taken place on 1 January 2014. The amounts attributable to Beijing Jiaoda Microunion are extracted from the financial information disclosed in Appendix II to the circular except that the following amounts which are intra-group balances or transactions to be eliminated on consolidation and are not adjusted for the purpose of pro forma financial information:

	RMB'000
Amounts due to fellow subsidiaries	21,357
Increase in amounts due to fellow subsidiaries	5
Dividends paid	70,000

(c) The adjustment represents the pro forma gain arising from the Disposal as if the Disposal were completed and the Group's control over Beijing Jiaoda Microunion were lost on 31 December 2014 calculated as follows:

	RMB'000
Consideration received or to be received	811,650
Less:	
Net assets of Beijing Jiaoda Microunion derecognised	(400,045)
Goodwill recognized on acquisition of Beijing Jiaoda Microunion in 2008	(72,777)
Unamortized fair value increase on intangible assets relating to Beijing Jiaoda Microunion on consolidation *(note i)*	(226,590)
Estimated transaction costs	(19,040)
Add:	
Amount due from Beijing Jiaoda Microunion recognised upon completion of the Disposal (the "Completion")	21,357
Deferred tax liabilities relating to unamortized fair value increase on intangible assets *(note ii)*	33,989
Non-controlling interest derecognized on Completion *(note iii)*	133,110
Gain on the Disposal before taxation	281,654
Estimated income tax effect on the Disposal *(note iv)*	(46,908)
Gain on the Disposal after taxation	234,746

Notes:-

(i) The unamortized fair value increase on intangible assets relating to Beijing Jiaoda Microunion on consolidation is derived based on the valuation increase on intangible assets, including trademarks, license and backlog orders in 2008 amounting to RMB261,114,000 less accumulated amortization of RMB34,524,000 as at 31 December 2014. The valuation report dated 16 March 2009 was prepared by an independent firm of valuers using Royalty Rate Method for trademarks and Multi-period Excess Earnings Method for License and Backlog Orders.

(ii) The deferred tax liabilities was determined based on the unamortized fair value increase on intangible assets amounting to RMB226,590,000 and the effective tax rate of Beijing Jiaoda Microunion. Beijing Jiaoda Microunion has been continuing awarded the qualification of "New and High Tech Enterprises (高新技術企業)", which are subject to PRC enterprise income tax at the preferential rate of 15%.

(iii) The non-controlling interest derecognized on Completion was derived based on 23.3% of the adjusted net assets of Beijing Jiaoda Microunion derecognized. The adjusted net assets of Beijing Jiaoda Microunion derecognized was derived based on the net assets of Beijing Jiaoda Microunion of RMB378,688,000 add the unamortized fair value increase on intangible assets relating to Beijing Jiaoda Microunion on consolidation as set out in note (i) above after adjusting the corresponding deferred tax liabilities as set out in note (ii) above.

(iv) The estimated income tax effect on the Disposal was derived based the estimated assessable profit of RMB521,197,000 being the difference between the Consideration and investment cost of Beijing Jiaoda Microunion recorded in the book of Tibet Consen amounting to RMB290,453,000. Pursuant to the circular no. [2014] 51 issued by the Tibet Autonomous Government, Tibet Consen is subject to the PRC enterprise income tax rate of 15%. Pursuant to a notice issued by the Tax Bureau of Tibet Autonomous District dated 24 July 2014, Tibet Consen can enjoy additional reduction in the tax rate by 6% from 1 January 2015 to 31 December 2017 for business activities other than mining activities or transfer of mining interests. Accordingly the income tax effect on the Disposal is estimated based on the effective tax rate of 9%.

In considering the change of the carrying amount of net assets of Beijing Jiaoda Microunion as at 1 January 2014 compared to that of 31 December 2014 are relatively immaterial, it is not meaningful to calculate a pro forma gain or loss based on the assets and liabilities of Beijing Jiaoda Microunion as at 1 January 2014. Therefore, for the purposes of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows, it is more representative to assume that the pro forma gain on the Disposal is equal to RMB234,746,000 as calculated on the same basis as set out above.

(d) Included in fair value increase of intangible assets relating to Beijing Jiaoda Microunion on consolidation is an amount of RMB190,002,000 attributable to a license of the access right of the business of railway safety equipment manufacture issued by Ministry of Railway. The license was originally determined to be having an indefinite useful life before 2011 but subsequently considered to have a finite useful life of 30 years in 2011. The corresponding annual amortization of RMB6,334,000 together with the estimated income tax effect, being the PRC enterprise income tax rate of Beijing Jiaoda Microunion, of RMB950,000 recognized on consolidation was adjusted for the purpose of unaudited pro forma consolidated statement of profit or loss and other comprehensive income.

Included in fair value increase of intangible assets relating to Beijing Jiaoda Microunion on consolidation is an amount of RMB9,190,000 attributable to backlog orders which has been fully amortized before 31 December 2013. The remaining fair value increase of intangible assets related to trademark which have indefinite useful lives.

(e) The net cash inflow from the Disposal is derived as follows:

	RMB'000
Cash consideration received or to be received	811,650
Less:	
Bank balances and cash of Beijing Jiaoda Microunion at 1 January 2014	(161,264)
	650,386

For alignment with the unaudited pro forma consolidated statement of profit or loss and other comprehensive income, the gain on the Disposal before taxation amounting to RMB281,654,000 as set out in note (c) and the additional amortisation for the fair value increase on intangible assets amounting to RMB6,334,000 as set out in note (d) are added back to the profit before taxation in the unaudited pro forma consolidated statement of cash flows.

B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this circular.

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF CHINA AUTOMATION GROUP LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Automation Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consisted of the pro forma statement of financial position as at 31 December 2014, the pro forma statement of profit or loss and other comprehensive income for the year ended 31 December 2014, the pro forma statement of cash flows for the year ended 31 December 2014 and related notes as set out on pages 31 to 39 of the circular issued by the Company dated 25 April 2015 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on page 31 of the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed disposal of 北京交大微聯科技有限公司 (transliterated as Beijing Jiaoda Microunion Technology Company Limited) on the Group's financial position as at 31 December 2014 and the Group's financial performance and cash flows for the year ended 31 December 2014 as if the event or transaction had taken place at 31 December 2014 and 1 January 2014 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2014, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2014 or 1 January 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 25 April 2015

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company or any of its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and 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 which they were taken or deemed to have under such 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Long position in the Shares of the Company

	Number of Shares						
Name of Director	Personal interest	Family interest	Corporate interest	Other interest	Interest in underlying shares pursuant to share options	Total	Approximate percentage of shareholding of the Company
Mr. Xuan *(Note 1)*	1,000,000	–	457,933,541	–	3,100,000	462,033,541	45.02%
Mr. Huang	–	–	–	–	4,380,000	–	0.43%
Mr. Kuang	–	–	–	–	4,380,000	–	0.43%
Mr. Wang Tai Wen	–	–	–	–	200,000	–	0.02%
Mr. Ng Wing Fai	–	–	–	–	200,000	–	0.02%

Note:

1. 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, Mr. Huang and 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.

Long position in the shares of associated corporations

Name of associated corporation	Name of Director	Number of shares: Personal interest	Family interest	Corporate interest	Interest in underlying shares pursuant to share option	Total	Approximate percentage of shareholding of the associated corporation
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 2)*	Mr. Xuan	–	–	5,000,000	–	5,000,000	93.8%

Note:

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

Substantial Shareholders' interests and short positions in Shares or underlying Shares

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) who has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of Shares	Approximate percentage of shareholding of the Company
Consen Group	Registered & beneficial owner	457,933,541	44.62%
Consen Investments *(Note 3)*	Interest in a controlled corporation	457,933,541	44.62%

Note:

3. 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.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Director and chief executive of the Company, no other person (not being a Director or chief executive of the Company) had, or were deemed to have, any interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Common directors

Mr. Xuan, Mr. Huang and Mr. Kuang, who are Directors, are also directors of Consen Group and Consen Investments.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract or had an unexpired service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors and their respective close associates (as defined in the Listing Rules) had any interest in any business which competes or may compete with the business of the Group or had any other conflict of interest with the Group.

5. INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2014 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Group.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

7. EXPERT AND CONSENT

The qualifications of the expert who has given opinions and advice in this circular are as follows:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which since 31 December 2014 (being the date to which the latest published audited financial statements of the Group were made up) have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group.

Deloitte Touche Tohmatsu has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion herein of its report prepared for the purpose of incorporation in this circular, and the references to its name and report in the form and context in which they respectively appear.

8. MATERIAL CONTRACTS

Save for the S&P Agreement, there have been no contracts (not being contracts entered into in the ordinary course of business) entered into by the Group within two years immediately preceding the date of this circular which are or may be material.

9. GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The Company's head office and principal place of business in Hong Kong is situated at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong.

(c) The Company's share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The secretary of the Company is Mr. Chow Chiu Chi, an associate member of the Chartered Institute of Management Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text thereof.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:30 p.m. (save for Saturdays and public holidays) at the principal place of business of the Company in Hong Kong at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong for a period of 14 days from the date hereof:

(a) the memorandum of association and articles of association of the Company;

(b) the S&P Agreement;

(c) the annual reports of the Company for the two years ended 31 December 2013 and 31 December 2014;

(d) this circular;

(e) the letter of consent as referred to in the section headed "Expert and Consent" in this appendix;

(f) the financial information of Beijing Jiaoda Microunion as set out in Appendix II to this circular; and

(g) the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular.

中國自動化集團有限公司
China Automation Group Limited
(HK stock code 0569)
(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of China Automation Group Limited (the "**Company**") will be held at Admiralty Conference Centre, Room 1804A, 18th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Friday, 15 May 2015 at 10:00 a.m. for the purposes of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company:–

ORDINARY RESOLUTION

"**THAT**:

(a) an agreement dated 23 March 2015 entered into between 西藏康吉森電子科技有限公司 (transliterated as Tibet Consen Electronic Technology Company Limited) ("**Tibet Consen**"), 深圳前海瑞聯二號投資中心(有限合夥)(transliterated as Shenzhen Qian Hai Rui Lian No. 2 Investment Centre (Limited Partnership)) (the "**Purchaser**") and 華泰瑞聯基金管理有限公司 (transliterated as Wah Tai Rui Lian Fund Management Company Limited) in respect of the disposal by Tibet Consen to the Purchaser of the entire 76.7% equity interest in 北京交大微聯科技有限公司 (transliterated as Beijing Jiaoda Microunion Technology Company Limited) held by it (the "**S&P Agreement**", a copy of which has been produced before the Meeting marked "A" and initialled by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) the directors of the Company be and are hereby authorised for and on behalf of the Company to sign, execute, perfect, perform and deliver all such other agreements, instruments, deeds and documents and do all such acts or things and take all such steps as they may in their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement or give effect to or otherwise in connection with or incidental to the S&P Agreement and all the transactions contemplated thereunder and to agree to such variations, amendments or waivers as are, in the opinion of the directors of the Company, in the interests of the Company."

By order of the Board
China Automation Group Limited
Xuan Rui Guo
Chairman

Hong Kong, 25 April 2015

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Unit 3205B-3206, 32nd Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint proxy to attend and vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's principal place of business in Hong Kong at Unit 3205B-3206, 32nd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

3. For determining the entitlement to attend and vote at the Meeting, the register of members will be closed from Friday, 8 May 2015 to Friday, 15 May 2015, both days inclusive. In order to be eligible to attend and vote at the Meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 7 May 2015.

As at the date of this notice, the executive Directors are Mr. Xuan Rui Guo, Mr. Kuang Jian Ping and Mr. Huang Zhi Yong; and the independent non-executive Directors are Mr. Wang Tai Wen, Mr. Sui Yong Bin and Mr. Ng Wing Fai.