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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)

2014 INTERIM RESULTS ANNOUNCEMENT

The board of directors of the Company (the “Board”) is pleased to announce the unaudited results of China Automation Group Limited and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014 (the “period under review”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Notes	Six months ended 30 June 2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Revenue	3	1,071,469	1,207,132
Cost of sales		(683,568)	(786,594)
Gross profit		387,901	420,538
Other income	4	28,789	27,497
Other gains and losses	5	(8,027)	(24,235)
Selling and distribution expenses		(80,514)	(96,038)
Administrative expenses		(111,434)	(128,609)
Research and development expenses		(44,847)	(41,999)
Other expenses		(2,529)	(3,468)
Finance costs	6	(68,251)	(67,950)
Share of results of associates		(239)	(683)
Share of results of a joint venture		80	—
Profit before taxation		100,929	85,053
Income tax expense	7	(30,128)	(15,723)
Profit for the period	8	70,801	69,330
Other comprehensive income for the period (net of tax)			
Items that maybe subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		1,438	6,034
Share of translation reserve of a joint venture		307	—
		1,745	6,034
Total comprehensive income for the period		72,546	75,364
Profit for the period attributable to:			
Owners of the Company		68,302	65,586
Non-controlling interests		2,499	3,744
		70,801	69,330
Total comprehensive income attributable to:			
Owners of the Company		70,047	71,620
Non-controlling interests		2,499	3,744
		72,546	75,364
Earnings per share	10		
Basic (RMB cents)		6.66	6.39

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	<i>Notes</i>	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment		500,004	471,037
Deposit for acquisition of property, plant and equipment		10,902	13,848
Prepaid lease payments – non-current portion		108,284	109,669
Intangible assets		457,691	454,031
Interests in associates		24,257	24,496
Interests in a joint venture		5,224	4,837
Goodwill		141,792	141,792
Pledged bank deposits		9,553	473
Deferred tax assets		33,610	36,077
Available-for-sale financial assets		64,217	64,217
Embedded derivative financial asset	<i>13</i>	1,553	3,954
		1,357,087	1,324,431
Current Assets			
Prepaid lease payments – current portion		2,770	2,770
Inventories		793,761	750,704
Trade and bills receivables	<i>11</i>	1,804,377	1,824,813
Other receivables and prepayments		283,350	203,182
Amounts due from customers for contract work		72,000	74,323
Pledged bank deposits		120,320	140,414
Bank balances and cash		472,435	457,103
		3,549,013	3,453,309
Current Liabilities			
Trade and bills payables	<i>12</i>	514,977	425,453
Other payables, deposits received and accruals		505,237	492,098
Dividend payable		6	4,666
Income tax payable		26,898	25,504
Bank borrowings – due within one year		342,171	397,387
		1,389,289	1,345,108
Net Current Assets		2,159,724	2,108,201
Total Assets less Current Liabilities		3,516,811	3,432,632
Capital and Reserves			
Share capital		9,548	9,548
Share premium and reserves		1,898,300	1,813,096
Equity attributable to owners of the Company		1,907,848	1,822,644
Non-controlling interests		328,672	341,330
Total Equity		2,236,520	2,163,974
Non-current liabilities			
Deferred tax liabilities		60,176	60,968
Guaranteed notes	<i>13</i>	1,162,175	1,146,863
Deferred income		57,940	60,827
		1,280,291	1,268,658
Total Equity and Non-Current Liabilities		3,516,811	3,432,632

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to owners of the Company								Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory surplus reserves RMB'000	Contribution from owners RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	
For the six months ended 30 June 2013										
At 1 January 2013 (audited)	9,548	648,367	34,666	89,713	619	655	–	976,731	1,760,299	2,075,354
Exchange difference arising on translation of foreign operations	–	–	–	–	–	6,034	–	–	6,034	6,034
Profit for the period	–	–	–	–	–	–	–	65,586	65,586	69,330
Total comprehensive income for the period	–	–	–	–	–	6,034	–	65,586	71,620	75,364
Increase of non-controlling interests (Note a)	–	–	–	–	–	–	–	–	35,550	35,550
Dividends distributed to non-controlling shareholders	–	–	–	–	–	–	–	–	(14,650)	(14,650)
At 30 June 2013 (unaudited)	<u>9,548</u>	<u>648,367</u>	<u>34,666</u>	<u>89,713</u>	<u>619</u>	<u>6,689</u>	<u>–</u>	<u>1,042,317</u>	<u>1,831,919</u>	<u>2,171,618</u>
For the six months ended 30 June 2014										
At 1 January 2014 (audited)	9,548	648,367	34,666	111,954	619	9,874	–	1,007,616	1,822,644	2,163,974
Share of translation reserve of a joint venture	–	–	–	–	–	307	–	–	307	307
Exchange difference arising on translation of foreign operations	–	–	–	–	–	1,438	–	–	1,438	1,438
Profit for the period	–	–	–	–	–	–	–	68,302	68,302	70,801
Total comprehensive income for the period	–	–	–	–	–	1,745	–	68,302	70,047	72,546
Reclassifications (Note b)	–	–	–	39,334	–	–	–	(24,177)	15,157	–
At 30 June 2014 (unaudited)	<u>9,548</u>	<u>648,367</u>	<u>34,666</u>	<u>151,288</u>	<u>619</u>	<u>11,619</u>	<u>–</u>	<u>1,051,741</u>	<u>1,907,848</u>	<u>2,236,520</u>

Notes:

- (a) On 22 April 2013, the Company's subsidiary, Beijing Consen Oil and Gas Engineering Co., Ltd. ("Consen Oil and Gas") made further capital contribution in cash amounting to RMB4,000,000 to Beijing Zhongjing Shihua New Energy Technology Co., Ltd ("Zhongjing Shihua"), a wholly owned subsidiary of the Group, while the third party transferred a full set of non-patented technologies to Zhongjing Shihua at a consideration of RMB35,550,000. As a result, Consen Oil and Gas's equity interest in Zhongjing Shihua was decreased from 100% to 51%.
- (b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), before distribution of profit each year, the subsidiaries established in the PRC shall set aside 10% of their profit derived in accordance with the generally accepted accounting principles in the PRC to the statutory surplus reserves. The statutory surplus reserves can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital. Owing to the limitations in the article of association of certain PRC subsidiaries of the Company, these PRC subsidiaries had not appropriated the statutory reserves amounting to RMB39,334,000 for the profit attributable to the financial year ended before 31 December 2013 and was reclassified in the current interim period for presentation purpose. In addition, the Company recognized the share of the depreciation and amortization of the revaluation increase in non-current assets on business combination amounting to RMB15,157,000 by the non-controlling interests of certain non-wholly owned subsidiaries to conform with current year presentation.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Operating activities		
Net cash generated from operating activities	<u>174,397</u>	<u>27,938</u>
Investing activities		
Interest received	2,193	1,798
Addition of property, plant and equipment	(48,315)	(25,757)
Development costs paid	(16,291)	(11,804)
Proceeds on disposal of property, plant and equipment	638	–
Placement of pledged bank deposits	(100,420)	(47,928)
Withdrawal of pledged bank deposits	<u>111,434</u>	<u>40,034</u>
Net cash used in investing activities	<u>(50,761)</u>	<u>(43,657)</u>
Financing activities		
New bank borrowings raised	371,180	308,978
Repayments of bank borrowings	(415,096)	(279,293)
Interest paid	(64,363)	(61,894)
Repayments of borrowings from an associate	–	(15,000)
Dividends paid to non-controlling shareholders	<u>(4,660)</u>	<u>(9,990)</u>
Net cash used in financing activities	<u>(112,939)</u>	<u>(57,199)</u>
Net increase (decrease) in cash and cash equivalents	10,697	(72,918)
Cash and cash equivalents at 1 January	457,103	494,819
Effect of foreign exchange rate changes	<u>4,635</u>	<u>(3,756)</u>
Cash and cash equivalents at 30 June, represented by bank balances and cash	<u><u>472,435</u></u>	<u><u>418,145</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

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

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

The application of the above new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

Six months ended 30 June 2014 (unaudited)

	Petrochemical <i>RMB'000</i>	Railway <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue	<u>828,409</u>	<u>243,060</u>	<u>1,071,469</u>
Segment profit before taxation	113,533	46,138	159,671
Income tax expense	<u>(18,218)</u>	<u>(11,910)</u>	<u>(30,128)</u>
Segment profit	<u>95,315</u>	<u>34,228</u>	129,543
Unallocated other income			54
Unallocated other gains and losses			(1,979)
Unallocated administrative expenses			(6,497)
Unallocated finance costs			<u>(50,320)</u>
Profit for the period			<u>70,801</u>

Six months ended 30 June 2013 (unaudited)

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

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

There was no inter-segment revenue for the six months ended 30 June 2014 (Six months ended 30 June 2013: Nil).

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

	30 June 2014	31 December
	RMB'000	2013
	(unaudited)	RMB'000
		(audited)
Segment assets		
Petrochemical	3,004,738	2,956,814
Railway	1,825,877	1,741,539
Total segment assets	4,830,615	4,698,353
Other assets	75,485	79,387
Consolidated assets	4,906,100	4,777,740
Segment liabilities		
Petrochemical	887,084	916,403
Railway	599,226	499,489
Total segment liabilities	1,486,310	1,415,892
Guaranteed notes	1,162,175	1,146,863
Other liabilities	21,095	51,011
Consolidated liabilities	2,669,580	2,613,766

4. OTHER INCOME

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other income includes:		
Bank interest income	2,193	1,798

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Other gains (losses) comprise:		
Net foreign exchange (losses) gains	(5,821)	4,668
Allowance for bad and doubtful debts	–	(23,712)
Gain on disposal of property, plant and equipment	195	–
Loss on embedded derivative financial asset (Note 13)	(2,401)	(5,191)
	<u>(8,027)</u>	<u>(24,235)</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest expenses on borrowings wholly repayable within five years	17,931	17,663
Interest expenses on guaranteed notes	50,320	48,902
Interest expenses on corporate bonds	–	1,385
	<u>68,251</u>	<u>67,950</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax charge comprises:		
PRC enterprise income tax	21,240	9,133
Hong Kong Profits Tax	7,209	3,166
Other jurisdictions	4	5
	<u>28,453</u>	<u>12,304</u>
Deferred tax credit	<u>1,675</u>	<u>3,419</u>
	<u>30,128</u>	<u>15,723</u>

Certain subsidiaries of the Company operating in the PRC are eligible for tax holiday and concession. The tax holiday and concession are in the form of two years tax exemption from the first profit-making year, followed by 50% reduction of the applicable tax rate in the following three years.

The increase in the effective tax rate for the six months ended 30 June 2014 is mainly attributable to the increase in the income tax of Beijing Heng Tai Ri Xin Software Technology Co., Ltd. and Ningxia Fei Mai Sen Process Control Technology Co., Ltd., the subsidiaries of the Company, both of which were under the first year of 50% tax reduction at a tax rate of 12.5% for the six months ended 30 June 2014.

8. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	<u>23,763</u>	<u>22,392</u>
Amortisation of intangible assets included in:		
Cost of sales	5,570	6,390
Administrative expenses	<u>7,061</u>	<u>9,512</u>
	<u>12,631</u>	<u>15,902</u>
Release of prepaid lease payment	1,385	1,141
Operating lease rentals in respect of rented premises	<u>13,529</u>	<u>17,467</u>

9. DIVIDENDS

No dividends have been declared in the current interim period.

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

10. EARNINGS PER SHARE

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

Earnings	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	68,302	65,586
Number of shares	Six months ended 30 June	
	2014	2013
	'000 shares	'000 shares
	(unaudited)	(unaudited)
Number of ordinary shares for the purpose of basic earnings per share	1,026,264	1,026,264

No diluted earnings per share is presented as there was no potential ordinary shares outstanding during the both periods.

11. TRADE AND BILLS RECEIVABLES

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

	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
0 – 90 days	689,896	815,337
91 – 180 days	280,300	254,305
181 – 365 days	403,260	399,839
1 – 2 years	414,159	344,233
2 – 3 years	16,762	11,099
	1,804,377	1,824,813

12. TRADE AND BILLS PAYABLES

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

	30 June 2014	31 December
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
0 – 90 days	346,606	190,087
91 – 180 days	103,887	86,605
181 – 365 days	24,482	82,322
1 – 2 years	22,022	44,304
Over 2 years	17,980	22,135
	514,977	425,453

13. GUARANTEED NOTES

The increase in the guaranteed notes during the six months ended 30 June 2014 is mainly attributable to the unwinding of the finance cost based on the effective interest rate of 8.74% (31 December 2013: 8.74%) after taking into account the transaction costs after deducting the interest paid during the six months ended 30 June 2014 and the reclassification of interest payable within one year to “other payables, deposits received and accruals”.

According to the terms and conditions of the guaranteed notes, at any time or from time to time prior to the maturity date on 20 April 2016, the Group may at its option redeem the notes at a redemption price set forth below.

Period	Redemption price
Prior to 20 April 2014	107.750% of the principal amount, plus accrued and unpaid interest
20 April 2014 to 20 April 2015	103.875% of the principal amount, plus accrued and unpaid interest
On 20 April 2015 and thereafter	101.9375% of the principal amount, plus accrued and unpaid interest

The estimated fair value of the early redemption right is RMB1,553,000 at 30 June 2014 (31 December 2013: RMB3,954,000). The early redemption right has been recognised as embedded derivative financial asset in the condensed consolidated statement of financial position. A loss of RMB2,401,000 was recognised for the six months ended 30 June 2014 (six months ended 30 June 2013: a loss of RMB5,191,000) (Note 5).

14. OPERATING LEASES

The Group as lessee

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	30 June 2014 <i>RMB'000</i> (unaudited)	31 December 2013 <i>RMB'000</i> (audited)
Within one year	25,642	19,191
In the second to fifth year inclusive	59,937	15,258
	85,579	34,449

15. CAPITAL COMMITMENTS

	30 June 2014 <i>RMB'000</i> (unaudited)	31 December 2013 <i>RMB'000</i> (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements – in respect of acquisition of leasehold land and building	9,171	15,724

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2014, revenue of the Group decreased by 11.2% year on year to RMB1,071.5 million (1H 2013: RMB1,207.1 million).

For the six months ended 30 June 2014, revenue generated from the petrochemical segment decreased slightly by 5% to RMB828.4 million (1H 2013: RMB871.9 million), while revenue generated from the railway segment decreased by 27.5% to RMB243.1 million (1H 2013: RMB335.2 million).

Turnover analysis by operating segment

	Six months ended 30 June				Change
	2014		2013		
	(RMB million)	Proportion (%)	(RMB million)	Proportion (%)	
Petrochemical	828.4	77.3	871.9	72.2	-5.0
Railway	243.1	22.7	335.2	27.8	-27.5
	1,071.5	100.0	1,207.1	100.0	-11.2

Turnover analysis by types of goods and services

	Six months ended 30 June				Change (%)
	2014		2013		
	(RMB million)	Proportion (%)	(RMB million)	Proportion (%)	
System sales and Engineering design services					
– Petrochemical					
– safety systems	449.8	42.0	538.9	44.6	-16.5
– control valves	304.3	28.4	229.5	19.0	+32.6
– Railway					
– Signaling systems	99.3	9.2	132.4	11.0	-25.0
– Traction systems	82.3	7.7	66.1	5.5	+24.5
Sub-total	935.7	87.3	966.9	80.1	-3.2
Provision of engineering and maintenance services	78.3	7.3	73.4	6.1	+6.7
Distribution of equipment	57.5	5.4	166.8	13.8	-65.5
Total	1,071.5	100.0	1,207.1	100.0	-11.2

Breaking down by the types of goods and services supplied by the Group, revenue related to system sales, provision of engineering and maintenance services as well as distribution of equipment for the six months ended 30 June 2014 amounted to RMB935.7 million (1H 2013: RMB966.9 million), RMB78.3 million (1H 2013: RMB73.4 million) and RMB57.5 million (1H 2013: RMB166.8 million), respectively.

System sales and engineering design services for the petrochemical industry

Safety systems and engineering design services

For the six months ended 30 June 2014, revenue generated from sales of safety and critical control systems and provision of engineering design services for the petrochemical industry decreased by 16.5% to RMB449.8 million (1H 2013: RMB538.9 million). The decrease was mainly due to the Group's effort in consolidating its oil and gas as well as overseas business segments so as to re-divert its resources and focus again to its core businesses.

Control valve

The Group's control valve business delivered satisfactory results and contributed RMB304.3 million (1H 2013: RMB229.5 million) to the Group's revenue for the six months ended 30 June 2014. The control valve business achieved robust organic growth of over 30% and gained more market share. Wuzhong Instrument is now the largest domestic manufacturer of control valves in China.

System sales to the railway industry

Signaling system

Revenue generated from the signaling system business dropped by 25% to RMB99.3 million (1H 2013: RMB132.4 million) mainly due to project delays and therefore delivery slowed down for national railway products. In addition, delivery of signaling systems for the local industrial railways slowed down due to overcapacity in the iron and steel industry. The management of the Group expects delivery to pick up in the second half of this year.

Traction system

Revenue generated from the traction system business increased by 24.5% to RMB82.3 million (1H 2013: RMB66.1 million). Thanks to China Railway Corporation's resumption of tendering of rolling stock projects after its internal adjustment last year.

Provision of engineering and maintenance services

Revenue generated from the provision of engineering and maintenance services increased by 6.7% to RMB78.3 million (1H 2013: RMB73.4 million). The management of the Group believes that more recurring income related to maintenance services will be generated as there will be more aged installations needed to be replaced following the end of their product life cycles.

Distribution of equipment

Revenue from equipment distribution decreased significantly by 65.5% to RMB57.5 million (1H 2013: RMB166.8 million). The significant decline was mainly due to the change of the business model under which only the net revenue was recorded as revenue instead of the previous practice of having gross revenue for those trading contracts in which the Group's role was considered as an agent.

Breaking down by business segment, 87.3% (1H 2013: 80.1%) of the revenue was generated from system sales, 7.3% (1H 2013: 6.1%) from provision of engineering and maintenance services and 5.4% (1H 2013: 13.8%) from distribution of equipment for the six months ended 30 June 2014.

In addition, in terms of industry segment, 77.3% (1H 2013: 72.2%) of the Group's revenue was generated from the petrochemical segment and 22.7% (1H 2013: 27.8%) was from the railway segment.

Gross profit

Gross profit for the six months ended 30 June 2014 was RMB387.9 million (1H 2013: RMB420.5 million), representing a 7.8% decrease when compared to that of the corresponding period last year.

The overall gross profit margin widened slightly by 1.4 percentage points to 36.2% for the six months ended 30 June 2014 (1H 2013: 34.8%).

Gross profit margin analysis by types of goods and services supplied

	Six months ended 30 June		
	2014	2013	Change
	%	%	% point
System sales and Engineering design services			
– Petrochemical			
– safety systems	34.5	34.4	+0.1
– control valves	31.6	32.2	-0.6
– Railway			
– Signaling systems	43.8	48.4	-4.6
– Traction systems	27.2	29.4	-2.2
Sub-total	33.9	35.5	-1.6
Provision of engineering and maintenance services	74.4	74.1	+0.3
Distribution of equipment	21.7	16.8	+4.9
Total	36.2	34.8	+1.4

Gross profit margin of system sales and engineering design services as well as control valves for the petrochemical industry

Gross profit margin of system sales and engineering design services

The gross profit margin of safety and critical control systems and engineering design services increased by 0.1 percentage points to 34.5% (1H 2013: 34.4%). The reasons for lower margin were: (i) lower margin for the engineering design works as more subcontract works were required for the infrastructure design variation works; and (ii) further losses incurred from overseas EPC projects.

Gross profit margin of control valves

The gross profit margin slightly decreased by 0.6 percentage points to 31.6% (1H 2013: 32.2%) due to the delivery of more general contractor works which included more imported control valves and therefore lowered the margin.

Gross profit margin of system sales for the railway industry

Gross profit margin of signaling system

The gross profit margin narrowed by 4.6 percentage points to 43.8% (1H 2013: 48.4%). The narrowed gross profit margin was mainly attributable to the lower level of production during the period.

Gross profit margin of traction system

The gross profit margin narrowed by 2.2 percentage points to 27.2% (1H 2013: 29.4%) due to keen market competition.

Gross profit margin for the provision of engineering and maintenance services

The gross profit margin for the provision of engineering and maintenance services widened by 0.3 percentage points to 74.4% (1H 2013: 74.1%).

Gross profit margin of distribution of equipment

The gross profit margin of the equipment distribution business widened by 4.9 percentage points to 21.7% (1H 2013: 16.8%).

Other income

For the six months ended 30 June 2014, other income amounted to RMB28.8 million (1H 2013: RMB27.5 million). The VAT refunds from the local tax bureaus and receipts of government grants remained largely stable during the period as compared to that of the corresponding period last year.

Other losses

For the six months ended 30 June 2014, other losses decreased by RM16.2 million to RMB8 million (1H 2013: losses of RMB24.2 million).

The significant decrease was the net effect of: (i) no new provision for bad and doubtful debts was made (being RMB17 million made offset by RMB17 million recovered) for the period whereas there was a RMB23.7 million provision made for bad and doubtful debts (being RMB38.7 million made offset by RMB15 million recovered) for the corresponding period last year; but offset by (ii) net foreign exchange losses of RMB5.8 million (1H 2013: gains of RMB4.7 million) due to devaluation of the Renminbi during the period.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2014 were RMB80.5 million (1H 2013: RMB96 million), representing a decrease of 16.1% when compared with that of the corresponding period last year. The decrease was mainly attributable to: (i) lower entertainment and traveling expenses; and (ii) savings on staff salaries resulted from a reduced headcount and lower management bonus.

Administrative expenses

Administrative expenses for the six months ended 30 June 2014 were RMB111.4 million (1H 2013: RMB128.6 million), representing a decrease of 13.4% when compared with that of the corresponding period last year. The decrease was mainly attributable to: (i) savings on staff salaries resulted from a reduced headcount and lower management bonus; (ii) lower rental expenses and office expenses; and (iii) lower entertainment and traveling expenses.

In an effort to lower selling and distribution expenses as well as administrative expenses, the Group implemented stringent budgetary planning and control systems as well as undertook various cost control measures.

Research and development expenses

Research and development expenses for the six months ended 30 June 2014 were RMB44.8 million (1H 2013: RMB 42 million). The research and development projects undertaken were mainly related to development of new control valves with large inflow and outflow diameters, temperature and pressure regulating equipment for the coal-chemical industry in response to the Chinese Government's preferential policies regarding localization; the integrated solution project for imported gas turbine and localized compressors; development of new signaling related technologies for the railway industry as well as traction systems and auxiliary electricity supply related products for trams.

Finance costs

Finance costs for the six months ended 30 June 2014 increased slightly by 0.4% year on year to RMB68.3 million (1H 2013: RMB68 million). The increase was mainly attributable to the increased utilization of discount on bank drafts.

Income tax expenses

Income tax expenses amounted to RMB30.1 million (1H 2013: RMB15.7 million) for the six months ended 30 June 2014. The effective tax rate of the Group for the six months ended 30 June 2014 increased by 11.4 percentage points to 29.9% (1H 2013: 18.5%). This was mainly due to (i) tax losses of the holding company and certain subsidiaries not recognised; and (ii) expiry of tax holidays for certain subsidiaries.

Profit for the year

The Group recorded profit attributable to equity holders of the Company at RMB68.3 million for the six months ended 30 June 2014 (1H 2013: RMB65.6 million), representing a increase of RMB2.7 million or 4.1% when compared with that of the corresponding period last year.

Liquidity, financial resources and capital structure

The Group's liquidity position remains strong.

Net cash generated from the Group's operating activities amounted to RMB174.4 million (1H 2013: RMB27.9 million) for the six months ended 30 June 2014. This was mainly attributable to (i) the tremendous effort made in following up with and collecting the trade and bills receivables so as to contain and lower the overall level; (ii) the significant increase in trade and bills payables; (iii) a significant increase in advance from customers.

Net cash used in investing activities of the Group amounted to RMB50.8 million for the six months ended 30 June 2014 (1H 2013: RMB43.7 million). The major investments during the six months ended 30 June 2014 were (i) purchases of properties, plant and equipment amounted to RMB48.3 million in aggregate; and (ii) development costs paid amounted to RMB16.3 million.

Net cash used in financing activities increased by RMB55.7 million to RMB112.9 million for the six months ended 30 June 2014 (1H 2013: RMB57.2 million) mainly attributable to more repayments for bank borrowings during the period. There was no significant financing activity for the six months ended 30 June 2014.

As at 30 June 2014, cash and bank balances (including bank deposits under conditions) amounted to RMB602.3 million (31 December 2013: RMB598 million).

Gearing position

The net gearing (total borrowings less cash over equity) ratio was 40.3% as at 30 June 2014 (31 December 2013: 43.7%). As at 30 June 2014, the total borrowings of the Group amounted to RMB1,504.3 million (31 December 2013: RMB1,544.3 million). The total borrowings mainly comprised RMB1,162.2 million (equivalent to USD192 million) worth of guaranteed notes issued in April 2011.

Significant investments, mergers and acquisitions

For the six months ended 30 June 2014, the Group had no significant investments, mergers and acquisitions.

Contingent liabilities

As at 30 June 2014, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The Group will strive to maintain its leading position in its four core businesses within the two major industries of petrochemical and railway.

For the petrochemical segment, the Group will continue to put great emphasis on business development of control valves of Wuzhong Instrument Company Limited for the purpose of further enhancing its overall competitive advantages in research and development, sales and marketing, production, and internal operation. The Group will continue to develop high-end control valves to capture the great opportunity for localization of industrial products in China. On the other hand, the Group will sustain its efforts in extending the applications of its safety control systems to upstream oil & gas fields as well as metallurgical, power, and other industries. Along with such development plans, the Group anticipates to enlarge the revenue contribution from its recurring engineering and maintenance services through an enhanced service team and provision of value-added services.

For the railway segment, the Group will further enhance the business development of traction and auxiliary power supply systems. Looking into the future, the Group will make extra efforts to gain more traction system projects of urban rail transit. It is the Group's aim to develop itself into a total solution provider which offers a full range of signaling products to both national railway and urban rail transit projects.

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

OTHER INFORMATION

Corporate governance

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

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

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board has established the following committees (all chaired by an Independent Non-executive Director) with defined terms of reference, which are on no less exacting terms than those set out in the Corporate Governance Code of the Listing Rules:

- Audit Committee
- Nomination Committee
- Remuneration Committee

Corporate governance practices adopted by the Company during the six months ended 30 June 2014 are in line with those practices set out in the Company's 2013 Annual Report.

Interim dividend

The Board did not recommend the distribution of interim dividend for the six months ended 30 June 2014.

Employees and remuneration policies

As at 30 June 2014, the Group had a total of 2,862 employees (31 December 2013: 2,966).

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

Purchase, sale or redemption of listed securities

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

Compliance with the corporate governance code of the listing rules

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in full compliance with all of the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014.

Compliance with the model code of the listing rules

The Group has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. Specific confirmation has been obtained from each Director and relevant employee to confirm compliance with the Model Code for the six months ended 30 June 2014. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2014.

Audit committee

The consolidated financial statements of the Group for the six months ended 30 June 2014 and the related disclosures have been reviewed and approved by the Audit Committee.

By order of the Board
China Automation Group Limited
XUAN Rui-guo
Chairman

Hong Kong, 27 August, 2014

As at the date of this announcement, the Board comprises three executive directors, being Mr. XUAN Rui-guo (Chairman), Mr. HUANG Zhi-yong and Mr. KUANG Jian-ping and three independent non-executive directors being Mr. WANG Tai-wen, Mr. Sui Yong-bin and Mr. NG Wing-fai.