



中國自動化集團有限公司

China Automation Group Limited

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



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

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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 2014		2013		Change (%)
	(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 2014		2013		Change (%)
	(RMB million)	Proportion (%)	(RMB million)	Proportion (%)	
System sales and Engineering design services					
– Petrochemical					
– safety system	449.8	42.0	538.9	44.6	-16.5
– control valve	304.3	28.4	229.5	19.0	+32.6
– Railway					
– Signaling system	99.3	9.2	132.4	11.0	-25.0
– Traction system	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.

MANAGEMENT DISCUSSION AND ANALYSIS

SYSTEM SALES AND ENGINEERING DESIGN SERVICES AS WELL AS CONTROL VALVE FOR THE PETROCHEMICAL INDUSTRY

Safety system 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 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%).

MANAGEMENT DISCUSSION AND ANALYSIS

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 system	34.5	34.4	+0.1
– Control valve	31.6	32.2	–0.6
– Railway			
– Signaling system	43.8	48.4	–4.6
– Traction system	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 VALVE 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 valve

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%).

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB16.2 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: RMB42 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

CORPORATE GOVERNANCE

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

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

THE BOARD

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

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

The Board is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board held three meetings to date in 2014 (with a 100% attendance rate).

BOARD COMMITTEES

The Board has established the following committees (all chaired by Independent Non-executive Directors) with defined terms of reference, which are on no less exacting terms than those set out in the Corporate Governance Code of the Listing Rules:

- Audit Committee
- Nomination Committee
- Remuneration Committee

AUDIT COMMITTEE

The Audit Committee was established to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board.

The Audit Committee met two times to date in 2014 (with a 100% attendance rate) to review with management and the Company's internal and external auditors, the Group's significant internal controls and financial matters as set out in the Committee's written terms of reference and make relevant recommendations to the Board.

The Audit Committee's review covers the findings of internal and external auditors, external auditor's independence and performance, provision of non-audit services by our external auditor, the Group's accounting principles and practices, Listing Rules and statutory compliance, connected transactions, internal controls, risk management, treasury, financial reporting matters (including the interim financial report for the six months ended 30 June 2014 for the Board's approval) and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function. Its current members include:

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

NOMINATION COMMITTEE

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

The Nomination Committee met one time to date in 2014 (with a 100% attendance rate) to review the board composition, the retirement of directors by rotation, the re-appointment of retiring directors at 2014 Annual General Meeting, and to assess the independence of Independent Non-executive Directors. Its current members include:

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

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE

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

The Remuneration Committee met two times to date in 2014 (with a 100% attendance rate) to review and approve remuneration packages of Executive Directors and Senior Management. Its current members include:

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

* Independent Non-executive Director

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

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

Relevant employees who are likely to be in possession of unpublished price-sensitive information ("Inside Information") of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. Specific confirmation of compliance has been obtained from each Director and relevant employee for the six months ended 30 June 2014. No incident of non-compliance with the Model Code or the aforesaid guidelines by Directors or relevant employees was noted by the Company for the six months ended 30 June 2014. The Group is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules, including the overriding principle that information which is expected to be price-sensitive should be announced promptly and to prevent selective or inadvertent disclosure of Inside Information. Therefore, the Company conducts

the handling and dissemination of such Inside Information in accordance with the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012 and adopted the Policy on Inside Information on 1 January 2013.

INVESTOR RELATIONS AND COMMUNICATIONS

In the first half of 2014, the Group continued to adopt a proactive and open approach while conducting extensive information exchanges and communication with investors, so that they could have better knowledge and understanding of the Group's future development strategy, operational situation and financial performance. Such efforts enhanced the transparency of the Group in the capital market and offered strong support to the Group's investors to make informed and reasonable investment decisions.

On the basis of fair disclosure, the Group has maintained sincere and timely communication with investors through various channels to report the Group's latest development:

- Interim results announcement and investors presentation
- Road shows
- Investment forums
- Continually arranging meetings between Senior Management and investors and site visits to the Group's facilities and customer sites
- Prompt response to investor enquiries
- The Group's website
- Strive to enlarge the research coverage

In the first half of 2014, the Group's top management and IR team participated in over 8 investment forums and road shows. The team paid visit to the Group's shareholders and potential investors in Hong Kong and China, so as to inform and update them about the Group's latest developments. Meanwhile, the Group has hosted site visits for more than 100 investors in Hong Kong and Beijing during the period, during which visitors could witness the Group's stable growth with their own eyes.

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

OTHER INFORMATION

REVIEW OF INTERIM RESULTS

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

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.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Part XV of Hong Kong Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(I) LONG POSITIONS IN THE SHARES OF THE COMPANY

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

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

OTHER INFORMATION

(II) LONG POSITIONS IN THE SHARES OF ASSOCIATED CORPORATIONS

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

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

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the interests of persons (not being a Director or chief executive of the Company) in the shares or underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:–

Name	Capacity	Number of shares	Percentage of holding
Consen Group	Registered & beneficial owner	457,933,541	44.62%
Consen Investments (Note)	Interest in a controlled corporation	457,933,541	44.62%

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

All the interests stated above represent long positions.

short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

Save as disclosed above, as at 30 June 2014, the Company has not been notified of any other interests or

SHARE OPTION SCHEME

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

As at 1 January 2014 and 30 June 2014, no options remained outstanding under the Scheme (As at 31 December 2013: no options remained outstanding). The total number of Shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the total number of Shares in issue as at 29 May 2013. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares in issue at any point in time, without prior approval from the Company's shareholders.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF CHINA AUTOMATION GROUP LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Automation Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 13 to 28, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provision thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 August 2014

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

	NOTES	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	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	12	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	19	1,553	3,954
		1,357,087	1,324,431
Current assets			
Prepaid lease payments – current portion		2,770	2,770
Inventories	13	793,761	750,704
Trade and bills receivables	14	1,804,377	1,824,813
Other receivables and prepayments	15	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	16	514,977	425,453
Other payables, deposits received and accruals	17	505,237	492,098
Dividend payable		6	4,666
Income tax payable		26,898	25,504
Bank borrowings – due within one year	18	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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
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	19	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		Total equity
	Share capital	Share premium	Other reserve	Statutory surplus reserves	Contribution from owners	Translation reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2013										
At 1 January 2013 (audited)	9,548	648,367	34,666	89,713	619	655	976,731	1,760,299	315,055	2,075,354
Exchange difference arising on translation of foreign operations	-	-	-	-	-	6,034	-	6,034	-	6,034
Profit for the period	-	-	-	-	-	-	65,586	65,586	3,744	69,330
Total comprehensive income for the period	-	-	-	-	-	6,034	65,586	71,620	3,744	75,364
Increase of non-controlling interests (Note a)	-	-	-	-	-	-	-	-	35,550	35,550
Dividends distributed to non-controlling shareholders	-	-	-	-	-	-	-	-	(14,650)	(14,650)
At 30 June 2013 (unaudited)	9,548	648,367	34,666	89,713	619	6,689	1,042,317	1,831,919	339,699	2,171,618
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	341,330	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	2,499	70,801
Total comprehensive income for the period	-	-	-	-	-	1,745	68,302	70,047	2,499	72,546
Reclassifications (Note b)	-	-	-	39,334	-	-	(24,177)	15,157	(15,157)	-
At 30 June 2014 (unaudited)	9,548	648,367	34,666	151,288	619	11,619	1,051,741	1,907,848	328,672	2,236,520

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 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Operating activities		
Net cash generated from operating activities	174,397	27,938
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	111,434	40,034
Net cash used in investing activities	(50,761)	(43,657)
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	(4,660)	(9,990)
Net cash used in financing activities	(112,939)	(57,199)
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	4,635	(3,756)
Cash and cash equivalents at 30 June, represented by bank balances and cash	472,435	418,145

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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

Six months ended 30 June 2013 (unaudited)

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

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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 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 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Other income includes:		
Bank interest income	2,193	1,798

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (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 19)	(2,401)	(5,191)
	(8,027)	(24,235)

6. FINANCE COSTS

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (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
	68,251	67,950

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (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
	28,453	12,304
Deferred tax credit	1,675	3,419
	30,128	15,723

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

7. INCOME TAX EXPENSE (CONT'D)

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

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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
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

	Six months ended 30 June	
	2014	2013
	'000 shares	'000 shares
	(unaudited)	(unaudited)
Number of shares		
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. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased property, plant and equipment approximately RMB5,544,000 (six months ended 30 June 2013: RMB32,393,000) from third parties.

In addition, the Group incurred approximately RMB47,628,000 on the construction of its new office premises and buildings improvements in the current interim period (six months ended 30 June 2013: RMB8,347,000).

12. INTANGIBLE ASSET

During the current interim period, additions to intangible assets amounting to RMB16,291,000 consist of capitalisation of development costs (six months ended 30 June 2013: additions to intangible assets amounting to RMB47,354,000 consist of capitalisation of development costs of RMB11,804,000 and non-patented technologies of RMB35,550,000 contributed by a non-controlling shareholder of a subsidiary of the Company).

13. INVENTORIES

	30 June 2014	31 December 2013
	RMB'000	RMB'000
	(unaudited)	(audited)
Raw materials	618,807	601,023
Work in progress	132,090	106,080
Finished goods	42,864	43,601
	793,761	750,704

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

14. TRADE AND BILLS RECEIVABLES

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (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

15. OTHER RECEIVABLES AND PREPAYMENTS

An analysis of other receivables and prepayments is as follows:

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Prepayments to suppliers	82,153	66,297
Other receivables	205,081	140,690
Less: impairment losses on other receivables	(3,884)	(3,805)
	283,350	203,182

16. 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 RMB'000 (unaudited)	31 December 2013 RMB'000 (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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

17. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Advance from customers	173,108	117,843
Accrued payroll and welfare	20,739	54,509
Interest payable	17,887	18,225
Other deposits, payables and accruals	221,280	192,260
Other tax payable	72,223	109,261
	505,237	492,098

18. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB371,180,000 (six months ended 30 June 2013: RMB308,978,000), and repaid bank borrowings amounting to approximately RMB415,096,000 (six months ended 30 June 2013: RMB279,293,000). The borrowings carry interest at market rates of 2.64% to 8.63% (six months ended 30 June 2013: 2.12% to 7.22%) per annum.

Details of pledge of assets for the Group's secured bank borrowings are set out in note 24.

19. 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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	At 30 June 2014	At 31 December 2013				
Early redemption right classified as embedded derivative financial asset in the condensed consolidated statement of financial position.	Assets – RMB1,553,000	Assets – RMB3,954,000	Level 3	The fair value of the embedded derivative financial asset is derived from the difference of the quoted market price of guaranteed notes extracted from Bloomberg and the fair value of the liability component of the guaranteed notes which was based on discounted cash flows using a discount rate of 6.18% as at 30 June 2014.	Discount rate of the liability component	The higher the discount rate, the lower the fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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

Except as detailed in the below table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

	30 June 2014		31 December 2013	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Guaranteed notes – liability component	1,163,728	1,207,155	1,150,817	1,185,703

The fair value of the financial liabilities included in the level 2 category above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Reconciliation of Level 3 fair value measurements of financial assets

	Embedded derivative financial asset RMB'000
At 1 January, 2014	3,954
Changes in fair value during the period	(2,401)
At 30 June, 2014	1,553

Changes in fair value during the period amounting to RMB2,401,000 are included in “other gains and losses”.

21. 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 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Within one year	25,642	19,191
In the second to fifth year inclusive	59,937	15,258
	85,579	34,449

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

22. CAPITAL COMMITMENTS

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (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

23. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Salaries and other benefits	6,800	5,654
Retirement benefit scheme contributions	287	140
	7,087	5,794

24. PLEDGE OF ASSETS

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

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
Leasehold land and buildings	150,417	163,665
Land use rights	52,407	48,971
Trade and bills receivables	47,763	41,300
Inventories	91,225	80,004
Pledged bank deposits	129,873	140,887
	471,685	474,827

The Group has pledged leasehold land and buildings with a carrying amount of approximately RMB28,718,000 (31 December 2013: RMB29,292,000) and pledged land use right with a carrying amount of approximately RMB7,885,000 (31 December 2013: RMB8,001,000) to obtain corporate guarantee from an independent third party for the banking facilities of RMB50,000,000 (31 December 2013: RMB38,959,000) granted to the Group. In addition, the Group paid approximately RMB1,254,000 (31 December 2013: RMB622,000) to the independent third party for the corporate guarantees provided.

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

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

Independent Non-executive Directors:

Mr. Wang Tai Wen
Mr. Sui Yong Bin
Mr. Ng Wing Fai

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Sui Yong Bin (Chairman)
Mr. Wang Tai Wen
Mr. Ng Wing Fai
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Mr. Chen Yong
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Mr. Li Guang Lei
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PRINCIPAL BANKERS

Hong Kong:

CTBC Bank Company Limited (HK Branch)
CITIC Bank International Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank Limited

PRC:

Agricultural Bank of China
Bank of Beijing
Bank of Communications
China Construction Bank
China Merchants Bank
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank
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