



中國自動化集團有限公司

China Automation Group Limited

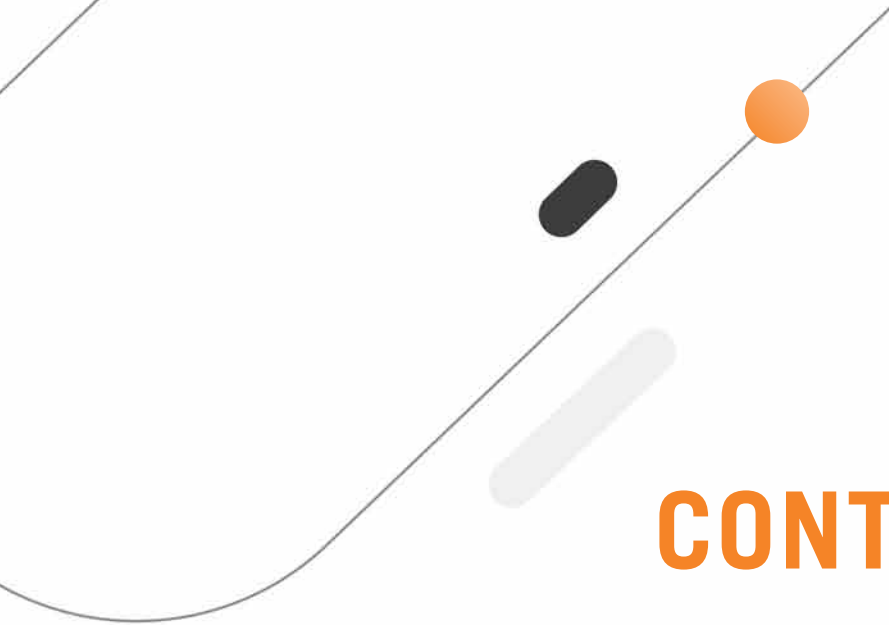
(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 569)

INTERIM REPORT

2015



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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

CONTINUING OPERATIONS

Revenue

For the six months ended 30 June 2015, revenue of the Group from continuing operations decreased by 21.3% year on year to RMB768.6 million (1H 2014: RMB976.7 million).

For the six months ended 30 June 2015, revenue generated from the petrochemical segment decreased by 16.5% to RMB692 million (1H 2014: RMB828.4 million), while revenue generated from the railway segment decreased by 48.3% to RMB76.6 million (1H 2014: RMB148.3 million).

Turnover analysis by operating segment

	2015		For the six months ended 30 June 2014		Change
	(RMB million)	Proportion (%)	(RMB million)	Proportion (%)	
Petrochemical	692.0	90.0	828.4	84.8	-16.5
Railway	76.6	10.0	148.3	15.2	-48.3
	768.6	100.0	976.7	100.0	-21.3

Turnover analysis by types of goods and services

	2015		For the six months ended 30 June 2014		Change
	(RMB million)	Proportion (%)	(RMB million)	Proportion (%)	
System sales and Engineering design services					
– Petrochemical					
– safety systems	330.2	43.0	449.8	46.1	-26.6
– control valves	291.1	37.9	304.3	31.2	-4.3
– Railway					
– Traction systems and others	76.6	9.9	90.5	9.2	-15.5
Sub-total	697.9	90.8	844.6	86.5	-17.4
Provision of engineering and maintenance services	65.5	8.5	76.1	7.8	-13.8
Distribution of equipment	5.2	0.7	56.0	5.7	-90.7
Total	768.6	100.0	976.7	100.0	-21.3

MANAGEMENT DISCUSSION AND ANALYSIS

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 2015 amounted to RMB697.9 million (1H 2014: RMB844.6 million), RMB65.5 million (1H 2014: RMB76.1 million) and RMB5.2 million (1H 2014: RMB56.0 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 2015, revenue generated from sales of safety and critical control systems and provision of engineering design services for the petrochemical industry decreased by 26.6% to RMB330.2 million (1H 2014: RMB449.8 million). The decrease was mainly due to the slower overall demand resulting from overall economic slowdown in China and the declines in crude oil prices.

Control valves

The Group's control valve business remained resilient with revenue for the six months ended 30 June 2015 shrank only 4.3% to RMB291.1 million (1H 2014: RMB304.3 million). Wuzhong Instrument is now the largest domestic manufacturer of control valves in China.

System sales to the railway industry

Traction systems and others

Revenue generated from the traction system and others business decreased by 15.5% to RMB76.6 million (1H 2014: RMB90.5 million). This was resulted from the slowdown in tendering of rolling stock projects by China Railway Corporation following the merger of CSR Corporation Limited and CNR Corporation Limited.

Provision of engineering and maintenance services

Revenue generated from provision of engineering and maintenance services decreased by 13.8% to RMB65.5 million (1H 2014: RMB76.1 million).

Distribution of equipment

Revenue from equipment distribution decreased significantly to RMB5.2 million (1H 2014: RMB56.0 million). The management of the Group considers that the equipment distribution business is incidental to its core system sales and provision of engineering and maintenance services business.

Breaking down by business segments, 90.8% (1H 2014: 86.5%) of the Group's revenue was generated from system sales, 8.5% (1H 2014: 7.8%) from provision of engineering and maintenance services and 0.7% (1H 2014: 5.7%) from distribution of equipment for the six months ended 30 June 2015.

In addition, breaking down by industry segments, 90.0% (1H 2014: 84.8%) of the Group's revenue was generated from the petrochemical segment and 10.0% (1H 2014: 15.2%) was from the railway segment.

Gross profit

Gross profit from continuing operations for the six months ended 30 June 2015 was RMB268.3 million (1H 2014: RMB342.6 million), representing a 21.7% decrease when compared with that of the corresponding period last year.

The overall gross profit margin decrease slightly by 0.2 percentage points to 34.9% for the six months ended 30 June 2015 (1H 2014: 35.1%).

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin analysis by types of goods and services supplied

	For the six months ended 30 June		
	2015 (%)	2014 (%)	Change
System sales and Engineering design services			
– Petrochemical			
– Safety systems	34.5	34.2	+0.3
– Control valve	34.4	31.6	+2.8
– Railway			
– Traction systems and others	12.6	25.6	-13.0
Sub-total	33.2	32.3	+0.9
Provision of engineering and maintenance services	63.4	74.2	-10.8
Distribution of equipment	55.3	65.2	-9.9
Total	34.9	35.1	-0.2

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 remained steady at 34.5% (1H 2014: 34.2%).

Gross profit margin of control valves

The gross profit margin increased by 2.8 percentage points to 34.4% (1H 2014: 31.6%) primarily due to the delivery of more high-end specialized control valves for the coal chemical industry and therefore enjoyed a higher margin.

Gross profit margin of system sales for the railway industry

Gross profit margin of traction systems and others

The gross profit margin narrowed by 13.0 percentage points to 12.6% (1H 2014: 25.6%), primarily due to the delivery of traction systems in relation to Nanjing Subway Line Number 1 which is a low-margin project. The Group's involvement in it was intended for track record building.

Gross profit margin of the provision of engineering and maintenance services

The gross profit margin of the provision of engineering and maintenance services decreased by 10.8 percentage points to 63.4% (1H 2014: 74.2%).

Gross profit margin of distribution of equipment

The gross profit margin of the equipment distribution business decreased by 9.9 percentage points to 55.3% (1H 2014: 65.2%).

Other income

For the six months ended 30 June 2015, other income amounted to RMB12.4 million (1H 2014: RMB20.8 million). This was due to receipts of lower government grants during the period when compared with that of the corresponding period last year.

Other losses

For the six months ended 30 June 2015, other losses increased by RMB21.0 million to RMB32.6 million (1H 2014: losses of RMB11.6 million). The increase was primarily attributable to (i) the early redemption premium of guaranteed notes amounted to RMB14.2 million; and (ii) its associated exchange loss amounted to RMB11.2 million.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2015 were RMB67.2 million (1H 2014: RMB75.5 million), representing a decrease of 11.0% when compared with that of the corresponding period last year. The decrease was mainly attributable to (i) lower entertainment and traveling expenses; (ii) savings on office expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Administrative expenses for the six months ended 30 June 2015 were RMB103.3 million (1H 2014: RMB91.6 million), representing an increase of 12.8% when compared with that of the corresponding period last year. The increase was mainly attributable to: (i) increase in redundancy payment following the program of streamlining business operations; (ii) increase in depreciation charges in relation to the new plant for traction system production; and (iii) property tax paid for the new plant for traction system production.

Research and development expenses

Research and development expenses for the six months ended 30 June 2015 were RMB36.4 million (1H 2014: RMB36.8 million).

The on-going research and development projects undertaken were mainly related to development of high-end control valves in response to preferential policies regarding localization to be enacted by the Government of China; turbine machinery control systems for the upstream oil and gas pipeline as well as traction systems and auxiliary electricity supply related products for trams.

Finance costs

Finance costs for the six months ended 30 June 2015 decreased by 9.8% year on year to RMB61.4 million (1H 2014: RMB68.1 million). The decrease was primarily due to the early redemption of guarantee notes with an outstanding principle amount of US\$120 million (equivalent to approximately RMB745.1 million) on 4 June 2015.

Income tax expenses

Income tax expenses amounted to RMB16.0 million (1H 2014: RMB26.6 million) for the six months ended 30 June 2015. The increase in the effective tax rate for the six months ended 30 June 2015 was mainly attributable to the fact that the current tax losses of certain subsidiaries were not recognized as deferred tax assets due to the unpredictability of future profit streams of the respective subsidiaries.

Loss for the period from continuing operations

The Group recorded loss attributable to equity holders of the Company at RMB35.5 million for the six months ended 30 June 2015 (1H 2014: profit of RMB52.9 million).

DISCONTINUED OPERATIONS

The Group recorded profit for the period from discontinued operations amounting to RMB217.3 million for the six months ended 30 June 2015 (1H 2014: RMB17.9 million), of which the profit attributable to owners of the Company amounted to RMB213.7 million.

The gain on disposal of discontinued operations was related to the disposal of a 76.7% equity interest in Beijing Jiaoda Microunion Technology Company Limited ("Beijing Jiaoda Microunion"). On 23 March 2015, an indirect wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement with independent parties for the dispose of a 76.7% equity interest in Beijing Jiaoda Microunion at a cash consideration of RMB811.65 million. The transaction was completed on 26 May 2015, being the date of changing business registration. The Directors believe that the consideration of RMB811.65 million is a satisfactory selling price and the transaction represents a good opportunity for the Group to realize its long-term investment in Beijing Jiaoda Microunion, given the fact that the historical cost of acquiring the 76.7% equity interest in Beijing Jiaoda Microunion amounted to merely approximately RMB303.5 million; and that the Group had already received dividend payments aggregating approximately RMB168.7 million since its acquisition in 2008 and up to the date of completion. Based on the financial information of Beijing Jiaoda Microunion as at the date of disposal, the gain on the disposal amounted to approximately RMB201.9 million after deduction of the direct related expenses and the effect on income tax charged to the gain on the disposal.

PROFIT FOR THE PERIOD (FROM CONTINUING AND DISCONTINUED OPERATIONS)

The Group recorded profit for the period amounting to RMB181.8 million for the six months ended 30 June 2015 (1H 2014: RMB70.8 million), representing an increase of 156.8% from the corresponding period last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's liquidity position remains strong.

MANAGEMENT DISCUSSION AND ANALYSIS

Net cash generated from operating activities amounted to RMB0.2 million (1H 2014: RMB178.6 million) for the six months ended 30 June 2015. This was mainly attributable to (i) the increase in trade receivables because of the delays in payments by customers amid the slowing economy in China; (ii) the increase in inventory levels resulting from procurement of more raw materials for control valve production in relation to major coal chemical projects; (iii) a lower level of trade and bills payables.

Net cash generated from investing activities amounted to RMB764.9 million for the six months ended 30 June 2015 (1H 2014: net cash used in investing activities stood at RMB50.8 million). The major cash receipts generated from for the six months ended 30 June 2015 were (i) net cash inflow from the disposal of Beijing Jiaoda Microunion amounting to RMB765.4 million; and (ii) a receipt of compensation amounting to RMB30.8 million related to the relocation of Wuzhong Instrument plant as well as government grants for acquisitions in property, plant and equipment amounting to RMB32.4 million.

Net cash used in financing activities increased by RMB754.2 million to RMB867.1 million for the six months ended 30 June 2015 (1H 2014: RMB112.9 million) mainly attributable to the early redemption of guaranteed notes (including the early redemption premium) amounted to RMB759.3 million.

As at 30 June 2015, cash and bank balances (including bank deposits under conditions) amounted to RMB367.0 million (31 December 2014: RMB514.1 million).

GEARING POSITION

As at 30 June 2015, the Group's net gearing (total borrowings less cash over equity) ratio was 16.5% (31 December 2014: at 45.1%). As at 30 June 2015, the total borrowings of the Group amounted to RMB738.7 million (31 December 2014: RMB1,507.6 million). The total borrowings mainly comprised guaranteed notes valued at RMB436.9 million in aggregate (equivalent to US\$72 million) issued in April 2011.

SIGNIFICANT INVESTMENTS, MERGERS AND ACQUISITIONS

For the six months ended 30 June 2015, the Group had no significant investments, mergers and acquisitions.

CONTINGENT LIABILITIES

As at 30 June 2015, the Group had no material contingent liabilities.

FUTURE OUTLOOK

The Group will strive to maintain its leading position in its core businesses in two major segments of petrochemical and railway.

For the petrochemical segment, the Group will continue to emphasize on business development of control valves so as to further enhance its overall competitive advantages in production, sales and marketing, and internal operation. To tap the major opportunity arisen from localization of industrial products in China, the Group will continue its efforts in research and development for high-end and diversified control valves, the control valves to be applied in the coal chemical industry in particular. On the other hand, the Group will sustain its efforts in extending the applications of its safety and critical control systems to upstream oil & gas field as well as other industries. Meanwhile, the Group will enlarge the revenue contribution from its recurring engineering and maintenance services through enhancing service teams and value-added services.

For the railway segment, the Group will further enhance the business development of traction and auxiliary power supply systems. The Group will endeavour more efforts to secure more traction system projects of urban rail transit.

Leveraging its solid businesses of safety and critical control systems, control valves, 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 2015 were in line with those practices set out in the Company's 2014 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 the 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 2015 (with a 100% attendance rate).

BOARD COMMITTEES

The Board has established the following committees (each 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

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 2015 (with a 100% attendance rate) to review with management and the Company's internal and external auditors, the Group's significant internal controls and financial matters as set out in the Audit Committee's written terms of reference and make relevant recommendations to the Board.

The Audit Committee's review covers the findings of internal and external auditors, external auditor's independence and performance, provision of non-audit services by our external auditor, the Group's accounting principles and practices, Listing Rules and statutory compliance, connected transactions, internal controls, risk management, treasury, financial reporting matters (including the interim financial report for the six months ended 30 June 2015 for the Board's approval) and the adequacy of resources, qualifications and experience of the 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 2015 (with a 100% attendance rate) to review the board composition, the retirement of directors by rotation, the re-appointment of retiring directors at the 2015 Annual General Meeting, and to assess the independence of Independent Non-executive Directors. Its current members include:

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

REMUNERATION COMMITTEE

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

CORPORATE GOVERNANCE

The Remuneration Committee met one time to date in 2015 (with a 100% attendance rate) to review and approve remuneration packages of Executive Directors and senior management of the Company. 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 2015.

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 2015. 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 2015. The Group is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules, including the overriding principle that Inside Information 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 2015, 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 2015, the Group's top management and investor relations team participated in over 3 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 60 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 Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM DIVIDEND

The Board did not recommend the distribution of interim dividend for the six months ended 30 June 2015.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2015, the Group had a total of 2,072 employees (31 December 2014: 2,813).

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 2015, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as notified to the Company and The Stock Exchange of Hong Kong Limited (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 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 pursuant to the Model Code were as follows:

LONG POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Director	No. of shares				Interest in underlying shares pursuant to the share options scheme (Note 2)	Total	Approximate percentage of shareholding
	Personal interest	Family interest	Corporate interest	Other interest			
Mr. Xuan Rui Guo	1,000,000	-	457,933,541 (Note 1)	-	3,100,000	462,033,541	45.02%
Mr. Huang Zhi Yong	-	-	-	-	4,380,000	4,380,000	0.43%
Mr. Kuang Jian Ping	-	-	-	-	4,380,000	4,380,000	0.43%
Mr. Wang Tai Wen	-	-	-	-	200,000	200,000	0.02%
Mr. Ng Wing Fai	-	-	-	-	200,000	200,000	0.02%

Notes: (1) Consen Group Holding Inc. ("Consen Group") was the legal and beneficial owner of 457,933,541 shares of the Company. Consen Group was owned as to 93.80% by Consen Investments Holding Inc. ("Consen Investments"). Consen Investments was owned as to 50%, 25% and 25% by Beijing Consen Holding Inc. ("Consen Holding"), Newday Resources Limited and Cowin Resources Limited, which were in turn wholly owned by Mr. Xuan Rui Guo ("Mr. Xuan"), Mr. Kuang Jian Ping and Mr. Huang Zhi Yong respectively. Accordingly, Mr. Xuan was deemed to be interested in the 457,933,541 shares held by Consen Group by virtue of the SFO.

(2) Certain Directors have been granted share options under a share option scheme. Details of the share option scheme are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 30 June 2015, 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.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2015, the interests of persons (not being a Director or chief executive of the Company) in the shares or underlying shares of the Company 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%
Consen Holding (Note)	Interest in a controlled corporation	457,933,541	44.62%

Note: Consen Group was owned as to 93.80% by Consen Investments, which was in turn owned as to 50% by Consen Holding. Therefore, each of Consen Investments and Consen Holding was deemed to be interested in such 457,933,541 shares held by Consen Group by virtue of the SFO.

All the interests stated above represent long positions.

Save as disclosed above, as at 30 June 2015, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

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

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the total number of shares of the Company in issue as at 29 May 2013 (being 102,626,372 shares), the date of approving refreshment of scheme mandate limit by an ordinary resolution of the shareholders of the Company.

The total number of shares issued and to be issued in respect of which options granted and may be granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue, unless with the prior approval from the Company's shareholders in a general meeting with such participant and his associates abstaining from voting.

Options granted to substantial shareholders of the Company or independent non-executive Directors in any 12-month period (a) representing in aggregate in excess of 0.1% of the total number of the Company's shares in issue and (b) 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 by the shareholders of the Company in a general meeting.

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 highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

OTHER INFORMATION

On 25 July 2014, the board resolved to grant 102,626,000 share options (the “Share Options”) to the Directors and to the employees of the Company, details of such Share Options outstanding as at 1 January 2015 and as at 30 June 2015 were as follows:

Grantees	Date of grant	Exercise price per share (HK\$)	Number of shares subject to outstanding Share Options as at 1 January 2015	Number of Share Options			Number of shares subject to outstanding Share Options as at 30 June 2015
				Exercised during the six months ended 30 June 2015	Lapsed during the six months ended 30 June 2015	Cancelled during the six months ended 30 June 2015	
Mr. Xuan Rui Guo	25/7/2014	HK\$1.6	3,100,000	–	–	–	3,100,000
Mr. Huang Zhi Yong	25/7/2014	HK\$1.6	4,380,000	–	–	–	4,380,000
Mr. Kuang Jian Ping	25/7/2014	HK\$1.6	4,380,000	–	–	–	4,380,000
Mr. Wang Tai Wen	25/7/2014	HK\$1.6	200,000	–	–	–	200,000
Mr. Ng Wing Fai	25/7/2014	HK\$1.6	200,000	–	–	–	200,000
Employees	25/7/2014	HK\$1.6	90,366,000	–	–	–	90,366,000
Total			102,626,000	–	–	–	102,626,000

Note:

The Share Options have a validity period from 25 July 2014 to 24 July 2018. None of the Share Options was exercisable during the period from 25 July 2014 to 24 July 2015. The Share Options will be exercisable in the following manner:

- (i) up to one third of the Share Options will become exercisable commencing on 25 July 2015;
- (ii) up to one third of the Share Options will become exercisable commencing on 25 July 2016;
- (iii) up to one third of the Share Options will become exercisable commencing on 25 July 2017;

provided that the relevant performance targets are achieved, and the closing price of the share of the Company on the trading day immediately preceding the date of exercise is HK\$2.4 or above.

The fair value of the share options granted by the Company under the Scheme is set out in note 43 to the consolidated financial statements of the 2014 Annual Report.

As at the date of this report, a total of 102,626,000 shares (representing approximately 10% of the issued shares of the Company) may be issued upon exercise of all options which have been granted and yet to be exercised under the Scheme.

For the six months ended 30 June 2015, no options were granted, exercised, cancelled or lapsed.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its securities for the six months ended 30 June 2015. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the six months ended 30 June 2015.

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 32, which comprise the condensed consolidated statement of financial position as of 30 June 2015 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
26 August 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	NOTES	Six months ended 30 June 2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Continuing operations			
Revenue	3	768,555	976,692
Cost of sales		(500,231)	(634,103)
Gross profit		268,324	342,589
Other income	4	12,413	20,822
Other gains and losses	5	(32,631)	(11,601)
Selling and distribution expenses		(67,215)	(75,450)
Administrative expenses		(103,344)	(91,611)
Research and development expenses		(36,399)	(36,809)
Other expenses		(241)	(123)
Operating profit		40,907	147,817
Finance costs	6	(61,351)	(68,144)
Share of results of associates		60	(239)
Share of results of a joint venture		936	80
(Loss) profit before taxation		(19,448)	79,514
Income tax expense	7	(16,048)	(26,632)
(Loss) profit for the period from continuing operations	8	(35,496)	52,882
Discontinued operations			
Profit for the period from discontinued operations	9	217,261	17,919
Profit for the period		181,765	70,801
Other comprehensive income (expense) for the period (net of tax)			
Items that maybe subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		619	1,438
Share of translation reserve of a joint venture		(269)	307
		350	1,745
Total comprehensive income for the period		182,115	72,546
Profit (loss) for the period attributable to:			
Owners of the Company		186,113	68,302
Non-controlling interests		(4,348)	2,499
		181,765	70,801
Total comprehensive income (expense) attributable to:			
Owners of the Company		186,463	70,047
Non-controlling interests		(4,348)	2,499
		182,115	72,546
Earnings (loss) per share	11		
From continuing and discontinued operations			
Basic and diluted (RMB cents)		18.14	6.66
From continuing operations			
Basic and diluted (RMB cents)		(2.68)	5.32

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	NOTES	At 30 June 2015 RMB'000 (unaudited)	At 31 December 2014 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	12	482,422	498,295
Deposit for acquisition of property, plant and equipment		18,445	19,573
Prepaid lease payments – non-current portion	13	138,032	106,899
Intangible assets	14	204,154	463,060
Goodwill	15	69,015	141,792
Interests in associates		24,727	24,667
Interests in a joint venture		4,887	4,220
Pledged bank deposits		5,022	8,727
Deferred tax assets	15	17,638	45,328
Available-for-sale financial assets		64,217	64,217
Embedded derivative financial asset	22	–	47
		1,028,559	1,376,825
Current assets			
Prepaid lease payments – current portion	13	3,434	2,770
Inventories	16	786,099	749,609
Trade and bills receivables	17	1,654,680	1,846,394
Other receivables and prepayments	18	137,485	166,663
Amounts due from customers for contract work		911	51,545
Pledged bank deposits		68,952	110,167
Bank balances and cash		293,114	395,231
		2,944,675	3,322,379
Current liabilities			
Trade and bills payables	19	504,114	533,933
Other payables, deposits received and accruals	20	257,991	329,386
Dividend payable		6	6
Income tax payable		54,711	4,095
Guaranteed notes	22	436,866	–
Bank borrowings – due within one year	21	301,808	346,757
		1,555,496	1,214,177
Net current assets		1,389,179	2,108,202
Total assets less current liabilities		2,417,738	3,485,027

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	NOTES	At 30 June 2015 RMB'000 (unaudited)	At 31 December 2014 RMB'000 (audited)
Capital and reserves			
Share capital		9,548	9,548
Share premium and reserves		2,054,509	1,866,458
Equity attributable to owners of the Company		2,064,057	1,876,006
Non-controlling interests		184,967	325,996
Total equity		2,249,024	2,202,002
Non-current liabilities			
Deferred tax liabilities	15	26,878	63,294
Guaranteed notes	22	–	1,160,804
Deferred income	23	141,836	58,927
		168,714	1,283,025
Total equity and non-current liabilities		2,417,738	3,485,027

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	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	Share option reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2015											
(unaudited)											
At 1 January 2015	9,548	648,367	34,666	165,464	619	11,072	1,735	1,004,535	1,876,006	325,996	2,202,002
Profit (loss) for the period	-	-	-	-	-	-	-	186,113	186,113	(4,348)	181,765
Exchange difference arising on translation of foreign operations	-	-	-	-	-	619	-	-	619	-	619
Share of translation reserve of a joint venture	-	-	-	-	-	(269)	-	-	(269)	-	(269)
Total comprehensive income (expense) for the period	-	-	-	-	-	350	-	186,113	186,463	(4,348)	182,115
Recognition of equity-settled share-based payments (Note 29)	-	-	-	-	-	-	1,588	-	1,588	-	1,588
Derecognized on disposal of a subsidiary (Note 9)	-	-	-	(43,440)	-	-	-	43,440	-	(136,681)	(136,681)
At 30 June 2015	9,548	648,367	34,666	122,024	619	11,422	3,323	1,234,088	2,064,057	184,967	2,249,024
For the six months ended 30 June 2014											
(unaudited)											
At 1 January 2014	9,548	648,367	34,666	111,954	619	9,874	-	1,007,616	1,822,644	341,330	2,163,974
Profit for the period	-	-	-	-	-	-	-	68,302	68,302	2,499	70,801
Exchange difference arising on translation of foreign operations	-	-	-	-	-	1,438	-	-	1,438	-	1,438
Share of translation reserve of a joint venture	-	-	-	-	-	307	-	-	307	-	307
Total comprehensive income for the period	-	-	-	-	-	1,745	-	68,302	70,047	2,499	72,546
Reclassifications (Note)	-	-	-	39,334	-	-	-	(24,177)	15,157	(15,157)	-
At 30 June 2014	9,548	648,367	34,666	151,288	619	11,619	-	1,051,741	1,907,848	328,672	2,236,520

Note: 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 differences in the articles of association of certain PRC subsidiaries of the Company and the relevant PRC laws, 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 prior 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 prior period presentation.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Operating activities		
Net cash generated from operating activities	231	178,554
Investing activities		
Interest received	1,988	2,193
Purchases of property, plant and equipment and deposits for acquisition of property, plant and equipment	(7,437)	(48,315)
Proceeds on disposal of property, plant and equipment	9	638
Addition of prepaid lease payment	(33,347)	–
Development costs paid	(15,056)	(16,291)
Net cash inflow on disposal of a subsidiary	765,373	–
Transaction cost paid for disposal of a subsidiary	(4,197)	–
Income tax paid for disposal of a subsidiary	(21,326)	–
Government grants received for acquisition of property, plant and equipment	32,376	–
Relocation compensation received	30,800	–
Placement of pledged bank deposits	(55,092)	(100,420)
Withdrawal of pledged bank deposits	70,867	111,434
Net cash generated from (used in) investing activities	764,958	(50,761)
Financing activities		
New bank borrowings raised	247,898	371,180
Repayments of bank borrowings	(292,847)	(415,096)
Interest paid	(62,820)	(64,363)
Repayment of guaranteed notes including early redemption premium	(759,282)	–
Dividends paid to non-controlling shareholders	–	(4,660)
Net cash used in financing activities	(867,051)	(112,939)
Net (decrease) increase in cash and cash equivalents	(101,862)	14,854
Cash and cash equivalents at 1 January	395,231	457,103
Effect of foreign exchange rate changes	(255)	478
Cash and cash equivalents at 30 June, represented by bank balances and cash	293,114	472,435

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") that are relevant, among others, for the preparation of the Group's condensed consolidated financial statements.

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle

The directors of the Company (the "Directors") anticipate that the application of the above amendments to 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 relating to continuing operations by reportable and operating segment for the period under review:

Six months ended 30 June 2015 (unaudited)

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	691,948	76,607	768,555
Segment profit (loss) before taxation	85,189	(19,183)	66,006
Income tax expense	(16,048)	–	(16,048)
Segment profit (loss)	69,141	(19,183)	49,958
Unallocated other income			2
Unallocated other gains and losses			(25,933)
Unallocated administrative expenses			(7,592)
Unallocated finance costs			(51,931)
Loss for the period (continuing operations)			(35,496)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2014 (unaudited)

	Petrochemical RMB'000	Railway RMB'000	Consolidated RMB'000
Revenue	828,409	148,283	976,692
Segment profit before taxation	113,533	24,723	138,256
Income tax expense	(18,218)	(8,414)	(26,632)
Segment profit	95,315	16,309	111,624
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 (continuing operations)			52,882

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

There was no inter-segment revenue for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

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

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Segment assets		
Petrochemical	3,193,670	2,928,133
Railway	708,419	1,699,028
Total segment assets	3,902,089	4,627,161
Other assets	71,145	72,043
Consolidated assets	3,973,234	4,699,204
Segment liabilities		
Petrochemical	967,580	768,856
Railway	293,888	546,499
Total segment liabilities	1,261,468	1,315,355
Guaranteed notes	436,866	1,160,804
Other liabilities	25,876	21,043
Consolidated liabilities	1,724,210	2,497,202

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

4. OTHER INCOME

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other income relating to continuing operations includes:		
Bank interest income	1,835	1,919

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other (losses) gains from continuing operations comprise:		
Net foreign exchange losses (Note)	(15,648)	(5,821)
Early redemption premium of guaranteed notes (Note 22)	(14,220)	–
Allowance for bad and doubtful debts	(2,711)	(3,574)
(Loss) gain on disposal of property, plant and equipment	(5)	195
Loss on embedded derivative financial asset (Note 24)	(47)	(2,401)
	(32,631)	(11,601)

Note: The amount includes the translation of guaranteed notes from US\$ to RMB amounting to RMB11,220,000 during the current interim period.

6. FINANCE COSTS

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Financial costs relating to continuing operations comprise interest expenses on:		
– Bank borrowings wholly repayable within five years	9,420	17,824
– Guaranteed notes	51,931	50,320
	61,351	68,144

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

7. INCOME TAXES RELATING TO CONTINUING OPERATIONS

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Current tax charge of continuing operations comprises:		
PRC enterprise income tax	14,017	19,986
Hong Kong Profits Tax	2,193	7,209
Other jurisdictions	49	4
	16,259	27,199
Deferred tax credit	(211)	(567)
	16,048	26,632

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 2015 is mainly attributable to the current tax losses of certain subsidiaries not recognized as deferred tax assets due to the unpredictability of future profit streams of respective subsidiaries.

8. (LOSS) PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

(Loss) profit for the period from continuing operations has been arrived at after charging the following items:

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Depreciation of property, plant and equipment	20,530	20,486
Amortization of intangible assets included in:		
– Cost of sales	5,905	4,760
– Administrative expenses	3,894	3,894
	9,799	8,654
Release of prepaid lease payment	1,550	1,385
Operating lease rentals in respect of rented premises	6,149	7,047

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

9. DISCONTINUED OPERATIONS

On 26 May 2015, the Group completed the disposal of its 76.7% equity interest in Beijing Jiaoda Microunion Technology Company Limited ("Beijing Jiaoda Microunion") at a cash consideration of RMB811,650,000. Beijing Jiaoda Microunion engages in the design, development and sales of railway signaling systems in the PRC.

The results of the discontinued operations included in the profit for the period are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current interim period.

Profit for the period from discontinued operations

	Period from 1 January 2015 to 26 May 2015 RMB'000 (unaudited)	Six months ended 30 June 2014 RMB'000 (unaudited)
Revenue	67,949	94,777
Cost of sales	(33,715)	(49,465)
Gross profit	34,234	45,312
Other income	9,681	7,967
Other gains and losses	658	3,574
Selling and distribution expenses	(3,804)	(5,064)
Administrative expenses	(14,797)	(19,823)
Research and development expenses	(6,282)	(8,038)
Other expenses	(1,566)	(2,406)
Finance costs	(114)	(107)
Profit before taxation	18,010	21,415
Income tax expense	(2,684)	(3,496)
	15,326	17,919
Gain recognised on disposal of a subsidiary	269,947	–
Attributable income tax expense	(68,012)	–
Profit for the period from discontinued operations	217,261	17,919
– Attributable to owners of the Company	213,690	13,744

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

9. DISCONTINUED OPERATIONS (CONTINUED)

Cash flows from discontinued operations

	Period from 1 January 2015 to 26 May 2015 RMB'000 (unaudited)	Six months ended 30 June 2014 RMB'000 (unaudited)
Net cash inflows from operating activities	1,872	13,754
Net cash outflows from investing activities	(20,412)	(8,228)
Net cash outflows from financing activities	(47,412)	(11,674)
Net cash outflows	(65,952)	(6,148)

The assets and liabilities of Beijing Jiaoda Microunion derecognized at the date of disposal were as follows:

	RMB'000
Non-current Assets	
Property, plant and equipment	8,681
Intangible assets	260,738
Deferred tax assets	24,961
	294,380
Current Assets	
Inventories	76,467
Trade and bills receivables	236,402
Other receivables and prepayments	15,466
Amounts due from customers for contract work	44,951
Pledged bank deposits	29,145
Bank balances and cash	46,277
	448,708
Current Liabilities	
Trade and bills payables	78,619
Other payables, deposits received and accruals	42,817
Income tax payable	533
	121,969
Non-current Liabilities	
Deferred tax liabilities	34,504
Net assets disposed of	586,615

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

9. DISCONTINUED OPERATIONS (CONTINUED)

Gain on disposal of a subsidiary	RMB'000
Consideration received	811,650
Net assets disposed of	(586,615)
Non-controlling interests	136,681
Goodwill derecognized on the disposal	(72,777)
Transaction cost of the disposal	(18,992)
Gain on the disposal before taxation	269,947
Net cash inflow on disposal of a subsidiary	RMB'000
Consideration received	811,650
Less: cash and cash equivalent balances disposed of	(46,277)
	765,373

10. DIVIDENDS

No dividends have been declared in the current interim period.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

11. EARNINGS (LOSS) PER SHARE

	Six months ended 30 June	
	2015	2014
	RMB Cents	RMB Cents
	(unaudited)	(unaudited)
Basic/diluted earnings (loss) per share		
From continuing operations	(2.68)	5.32
From discontinued operations	20.82	1.34
Total basic/diluted earnings per share	18.14	6.66

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

11. EARNINGS (LOSS) PER SHARE (CONTINUED)

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

Earnings (loss)	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Profit for the period attributable to owners of the Company	186,113	68,302
Less: Profit for the period from discontinued operations	(213,690)	(13,744)
(Loss) earnings used for the purposes of basic and diluted earnings (loss) per share from continuing operations	(27,577)	54,558

Weighted average number of shares	Six months ended 30 June	
	2015 '000 shares (unaudited)	2014 '000 shares (unaudited)
Number of ordinary shares for the purpose of basic earnings per share	1,026,264	1,026,264

The calculation of diluted earnings per share did not take into account the share options of the Company issued on 24 July 2014 (Note 29) because the exercise price of these share options was higher than the average market price of the Company's shares during the current interim period.

No diluted earnings per share are presented for the interim period ended 30 June 2014 as there was no potential ordinary shares outstanding during the prior period.

12. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased property, plant and equipment amounting to RMB12,242,000 (six months ended 30 June 2014: RMB5,544,000) from third parties.

In addition, the Group incurred approximately RMB2,540,000 on the construction of its new office premises and buildings improvements in the current interim period (six months ended 30 June 2014: RMB47,628,000).

13. PREPAID LEASE PAYMENTS

During the current interim period, the Group acquired land use rights amounting to RMB33,347,000 (six months ended 30 June 2014: Nil)

14. INTANGIBLE ASSETS

During the current interim period, additions to intangible assets amounting to RMB15,056,000 consist of capitalisation of development costs (six months ended 30 June 2014: RMB16,291,000).

The decrease in the intangible assets at 30 June 2015 is mainly attributable to the disposal of Beijing Jiaoda Microunion as set out in Note 9.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

15. GOODWILL/DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES

The decrease in the goodwill, deferred tax assets and deferred tax liabilities at 30 June 2015 is mainly attributable to the disposal of Beijing Jiaoda Microunion as set out in Note 9.

16. INVENTORIES

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Raw materials	558,009	569,810
Work in progress	174,390	141,395
Finished goods	53,700	38,404
	786,099	749,609

17. 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 aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
0 – 90 days	569,627	725,198
91 – 180 days	302,550	379,841
181 – 365 days	441,770	381,219
1 – 2 years	327,719	343,414
2 – 3 years	13,014	16,722
	1,654,680	1,846,394

18. OTHER RECEIVABLES AND PREPAYMENTS

An analysis of other receivables and prepayments is as follows:

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Prepayments to suppliers	62,321	61,248
Other receivables	79,309	109,560
Less: impairment losses on other receivables	(4,145)	(4,145)
	137,485	166,663

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

19. TRADE AND BILLS PAYABLES

The average credit period on purchases is 90 to 180 days. The following is an aged analysis of trade and bills payables based on the invoice date at the end of the reporting period:

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
0 – 90 days	258,702	262,416
91 – 180 days	149,808	154,045
181 – 365 days	48,393	51,133
1 – 2 years	39,273	45,346
Over 2 years	7,938	20,993
	504,114	533,933

20. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Advance from customers	63,873	60,606
Accrued payroll and welfare	16,281	61,510
Interest payable	6,574	17,871
Other deposits, payables and accruals	111,554	106,771
Other tax payable	59,709	82,628
	257,991	329,386

21. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB247,898,000 (six months ended 30 June 2014: RMB371,180,000), and repaid bank borrowings amounting to approximately RMB292,847,000 (six months ended 30 June 2014: RMB415,096,000). The borrowings carry interest at market rates of 2.25% to 7.20% (six months ended 30 June 2014: 2.64% to 8.63%) per annum.

Details of pledge of assets for the Group's secured bank borrowings are set out in note 28.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

22. GUARANTEED NOTES

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Guaranteed notes	436,866	1,160,804

On 4 June 2015, the Company redeemed 62.5% of the outstanding principal amount of the guaranteed notes with principal amount of US\$120,000,000 (equivalent to approximately RMB745,062,000) at a premium of US\$2,325,000 (equivalent to approximately RMB14,220,000) and repaid the attributable accrued and unpaid interest of US\$1,136,400 (equivalent to approximately RMB7,058,000) as of 4 June 2015. The premium of RMB14,220,000 was expensed and included in "other gains and losses" in the condensed consolidated statement of profit or loss and other comprehensive income (Note 5).

The remaining balance of the guaranteed notes will be matured on 20 April 2016 and is classified as current liability accordingly.

23. DEFERRED INCOME

	Arising from government grants RMB'000 (Note a)	Relocation compensation RMB'000 (Note b)	Total RMB'000
At 31 December 2014	58,927	–	58,927
Addition	35,400	50,000	85,400
Released to profit or loss	(2,491)	–	(2,491)
At 30 June 2015	91,836	50,000	141,836

Notes:

- Deferred income arising from government grant represents the government subsidies obtained in relation to the purchase of infrastructure construction, which was included in the condensed consolidated statement of financial position as deferred income and credited to the condensed consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the expected useful life of the relevant assets.
- On 21 May 2015, the Company's subsidiary, Wuzhong Instrument Company Limited ("Wuzhong Instrument") has entered into an agreement with the municipal government of Wuzhong City of Ningxia Hui Autonomous Region in the PRC as at a total compensation consideration of approximately RMB200,279,000. The amount of compensation attributable to losses of the land use right, property, plant and unmovable equipment, related expenses, losses from production suspension incurred during the relocation. During the current interim period, the relocation activities have not yet commenced. Accordingly, the compensation income of RMB50,000,000 received in advance is recorded as deferred income and will be recognized as other income based on the relocation progress subsequently.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

24. 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 categorized (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
	30 June 2015	31 December 2014				
Early redemption right classified as embedded derivative financial asset in the condensed consolidated statement of financial position.	Nil	Assets – RMB47,000	Level 3	The fair value of the embedded derivative financial asset is derived from the difference of the quoted market price of guaranteed notes at US\$100.32 extracted from Bloomberg (31 December 2014: US\$100.39) and the fair value of the liability component of the guaranteed notes which was based on discounted cash flows using a discount rate of 8.79% as at 30 June 2015 (31 December 2014: 7.79%).	Discount rate of the liability component	Discount rate of the liability component (Note)

Note: An increase in the discount rate used in isolation would result in a decrease in the fair value measurement of the early redemption right, and vice versa.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	30 June 2015		31 December 2014	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Guaranteed notes – liability component	436,866	441,581	1,160,804	1,179,524

The fair value of the financial liabilities included in the level 3 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 is as follows:

	Embedded derivative financial asset RMB'000
At 1 January 2015	47
Changes in fair value during the period	(47)
At 30 June 2015	–

Changes in fair value during the interim period are included in “other gains and losses” (Note 5).

25. 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 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Within one year	12,444	22,084
In the second to fifth year inclusive	7,498	53,000
	19,942	75,084

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a lease term ranging from one to five years and rentals are fixed at the date of signing of lease agreements. The decrease in the commitment amount is mainly attributable to the disposal of a subsidiary in the current interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

26. CAPITAL COMMITMENTS

	30 June 2015 RMB'000 (unaudited)	31 December 2014 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	6,605	7,615

27. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June 2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Salaries and other benefits	8,087	6,800
Retirement benefit scheme contributions	306	287
	8,393	7,087

28. 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 the reporting period is as follows:

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Buildings	120,767	158,625
Land use rights	65,020	51,657
Inventories	90,000	66,346
Trade receivables	10,000	85,300
Bills receivables	31,500	48,600
Pledged bank deposits	73,974	118,894
	391,261	529,422

The amounts disclosed above includes the assets pledged at 30 June 2015 to obtain corporate guarantee from an independent third party for available banking facilities of RMB100,000,000 (31 December 2014: RMB100,000,000) granted to the Group. The aggregate carrying amount of these pledged assets are buildings amounted to approximately RMB27,560,000 (31 December 2014: RMB28,134,000) and land use right amounted to approximately RMB7,650,000 (31 December 2014: RMB7,767,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

28. PLEDGE OF ASSETS (CONTINUED)

During the current interim period, the Group repaid related bank borrowings of RMB49,000,000 and the utilized facilities balance is RMB100,000 as of 30 June 2015 (31 December 2014: RMB50,000,000). In addition, the Group paid approximately RMB10,000 (six months ended 30 June 2014: RMB1,125,000) to the independent third party for the corporate guarantees provided.

29. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

At 30 June 2015, the number of shares in respect of which options had been granted and remained outstanding was 102,626,000 (31 December 2014: 102,626,000), representing 10% (31 December 2014: 10%) of the shares of the Company in issue at that date. There is no share option lapsed during the current interim period.

The following tables disclose details of the Company's share options held by the grantees and movements in such holdings under the share option scheme during the year:

	Date of grant	Vesting period	Exercise period	Exercise price	Number of options ('000)			
					Outstanding at 31 December 2014	Granted during the year	Exercised/ lapsed during the year	Outstanding at 30 June 2015
Tranche 1	25 July 2014	25 July 2014 to 24 July 2015	25 July 2015 to 24 July 2018	HK\$1.60	34,209	-	-	34,209
Tranche 2	25 July 2014	25 July 2014 to 24 July 2016	25 July 2016 to 24 July 2018	HK\$1.60	34,209	-	-	34,209
Tranche 3	25 July 2014	25 July 2014 to 24 July 2017	25 July 2017 to 24 July 2018	HK\$1.60	34,208	-	-	34,208
					102,626	-	-	102,626
Exercisable at the end of the reporting period								
								-
Weighted average exercise price					HK\$1.60	-	-	HK\$1.60

During the current interim period, the Group recognised share-based expenses of RMB1,588,000 (six months ended 30 June 2014: Nil).

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

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

Independent Non-executive Directors:

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

AUTHORIZED REPRESENTATIVES

Mr. Xuan Rui Guo
Mr. Chow Chiu Chi

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SENIOR MANAGEMENT

Mr. Cui Da Chao
Mr. Zhou Zheng Qiang
Mr. Jiang Yi
Mr. Duan Min
Mr. Chen Yong
Mr. Ma Yu Shan
Ms Wang Yan Mei
Mr. Tian Lei
Mr. Wang Jing Hua
Mr. Lu Ming Yi
Mr. William Erik Barkovitz
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Bank of China
Bank of Communications
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China Guangfa Bank
China Merchants Bank
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