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China Automation Group Limited

中國自動化集團有限公司

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

2010 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- The Group achieved revenue of RMB755 million for the six months ended 30 June 2010 which represents an increase of approximately 42.7% as compared with that of the corresponding period of previous year.
- Net profit attributable to equity holders increased by 32.2% to RMB142 million as compared with that of the corresponding period of previous year.
- Earnings per share of the Group were approximately RMB14.06 cents (1H 2009: RMB11.48 cents) for the six months ended 30 June 2010.
- The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

The board of directors of the Company (the “Board”) is pleased to announce the unaudited results of China Automation Group Limited and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2010 (the “period under review”).

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

		Six months ended 30 June	
	<i>NOTES</i>	2010	2009
		<i>RMB'000</i>	<i>RMB'000</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	3	754,996	529,135
Cost of sales		<u>(451,900)</u>	<u>(288,480)</u>
Gross profit		303,096	240,655
Other income	4	16,806	10,023
Other gains and losses	5	(3,314)	(345)
Selling and distribution expenses		(42,892)	(41,540)
Administrative expenses		(77,192)	(60,016)
Research and development expenses		(10,103)	(5,038)
Finance costs		<u>(10,923)</u>	<u>(7,284)</u>
Profit before tax		175,478	136,455
Income tax expense	6	<u>(18,442)</u>	<u>(12,161)</u>
Profit for the period	7	157,036	124,294
Other comprehensive income for the period			
Exchange differences arising on translation of foreign operations		<u>(246)</u>	<u>95</u>
Total comprehensive income for the period		<u><u>156,790</u></u>	<u><u>124,389</u></u>
Profit for the period attributable to:			
Owners of the Company		141,962	107,427
Non-controlling interests		<u>15,074</u>	<u>16,867</u>
		<u><u>157,036</u></u>	<u><u>124,294</u></u>
Total comprehensive income attributable to:			
Owners of the Company		141,716	107,522
Non-controlling interests		<u>15,074</u>	<u>16,867</u>
		<u><u>156,790</u></u>	<u><u>124,389</u></u>
Earnings per share	9		
Basic (RMB cents)		<u>14.06</u>	<u>11.48</u>
Diluted (RMB cents)		<u><u>13.97</u></u>	<u><u>11.47</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2010

	<i>NOTES</i>	At 30 June 2010 <i>RMB'000</i> <i>(unaudited)</i>	At 31 December 2009 <i>RMB'000</i> <i>(audited)</i>
Non-current Assets			
Property, plant and equipment	10	110,560	93,591
Prepaid lease payments		24,650	24,938
Intangible assets	11	276,221	276,029
Goodwill		76,175	76,175
Interests in an associate	12	80,000	—
Deferred tax assets	13	14,819	16,151
Available-for-sale financial assets		3,373	3,373
		<u>585,798</u>	<u>490,257</u>
Current Assets			
Prepaid lease payments		584	584
Inventories		323,267	318,598
Trade and bills receivables	14	783,570	590,455
Amounts due from customers for contract work		7,836	3,152
Other receivables and prepayments		120,932	52,711
Pledged bank deposits	15	104,429	86,538
Bank balances and cash		471,553	536,598
		<u>1,812,171</u>	<u>1,588,636</u>
Current Liabilities			
Trade and bills payables	16	293,332	204,655
Other payables, deposits received and accruals		105,811	129,105
Dividend payable		2	2
Tax liabilities		9,028	9,668
Borrowings	17	269,319	194,875
		<u>677,492</u>	<u>538,305</u>
Net Current Assets		<u>1,134,679</u>	<u>1,050,331</u>
Total Assets less Current Liabilities		<u><u>1,720,477</u></u>	<u><u>1,540,588</u></u>

	<i>NOTES</i>	At 30 June 2010	At 31 December 2009
		<i>RMB'000</i>	<i>RMB'000</i>
		<i>(unaudited)</i>	<i>(audited)</i>
Capital and Reserves			
Share capital	19	9,487	9,376
Share premium and reserves	20	1,444,525	1,275,124
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,454,012	1,284,500
Non-controlling interests		120,853	117,759
		<hr/>	<hr/>
Total Equity		1,574,865	1,402,259
		<hr/>	<hr/>
Non-current liabilities			
Deferred tax liabilities	13	38,789	38,789
Borrowings	17	48,516	39,019
Deferred income	18	58,307	60,521
		<hr/>	<hr/>
		145,612	138,329
		<hr/>	<hr/>
Total Equity and Liabilities		1,720,477	1,540,588
		<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 <i>(Note 20a)</i>	Statutory		Translation reserve RMB'000	Share option reserve RMB'000 <i>(Note 20c)</i>	Retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
				surplus reserves RMB'000 <i>(Note 20b)</i>	Contribution from owners RMB'000						
At 1 January 2009 (audited)	8,516	553,813	(18,335)	24,222	619	(6,147)	23,748	317,533	903,969	85,887	989,856
Exchange difference arising on translation of foreign operations	—	—	—	—	—	95	—	—	95	—	95
Profit for the period	—	—	—	—	—	—	—	107,427	107,427	16,867	124,294
Total comprehensive income for the period	—	—	—	—	—	95	—	107,427	107,522	16,867	124,389
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	(1,703)	(1,703)
Dividends	—	—	—	—	—	—	—	(35,090)	(35,090)	—	(35,090)
Issue of ordinary shares	759	173,602	—	—	—	—	—	—	174,361	—	174,361
Shares issue expenses	—	(3,681)	—	—	—	—	—	—	(3,681)	—	(3,681)
Recognition of share-based payments	—	—	—	—	—	—	5,582	—	5,582	—	5,582
Share repurchased and cancelled	(1)	(113)	—	—	—	—	—	—	(114)	—	(114)
At 30 June 2009 (unaudited)	9,274	723,621	(18,335)	24,222	619	(6,052)	29,330	389,870	1,152,549	101,051	1,253,600
At 1 January 2010 (audited)	9,376	756,126	(18,335)	38,536	619	(6,065)	24,026	480,217	1,284,500	117,759	1,402,259
Exchange difference arising on translation of foreign operations	—	—	—	—	—	(246)	—	—	(246)	—	(246)
Profit for the period	—	—	—	—	—	—	—	141,962	141,962	15,074	157,036
Total comprehensive income for the period	—	—	—	—	—	(246)	—	141,962	141,716	15,074	156,790
Dividends paid by a subsidiary	—	—	—	—	—	—	—	—	—	(11,980)	(11,980)
Issue of shares on exercise of share options	111	37,307	—	—	—	—	(12,090)	—	25,328	—	25,328
Recognition of share-based payments	—	—	—	—	—	—	2,468	—	2,468	—	2,468
At 30 June 2010 (unaudited)	9,487	793,433	(18,335)	38,536	619	(6,311)	14,404	622,179	1,454,012	120,853	1,574,865

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net cash (used in) generated from operating activities	17,970	75,519
Interest received	829	763
Purchases of property, plant and equipment	(14,022)	(8,167)
Construction costs incurred	(8,677)	(3,653)
Purchases of available-for-sale financial assets	—	(3,373)
Development costs paid	(1,680)	(2,809)
Proceeds on disposal of property, plant and equipment	116	—
Increase in bank deposits under conditions	(17,891)	(79,755)
Investment in an associate	(80,000)	—
Acquisition of additional interest in a subsidiary	—	(5,100)
Net cash used in investing activities	(121,325)	(102,094)
Proceeds from issue of shares	25,328	174,361
Shares issue expenses	—	(3,681)
Repurchase of shares	—	(114)
New borrowings raised	270,944	170,600
Interest paid	(10,923)	(7,284)
Repayments of borrowings	(234,808)	(162,039)
Dividends paid to owners of the Company	—	(35,083)
Dividends paid to non-controlling shareholders	(11,980)	—
Net cash from financing activities	38,561	136,760
Net (decrease) increase in cash and cash equivalents	(64,794)	110,185
Cash and cash equivalents at 1 January	536,598	308,918
Effect of foreign exchange rate changes	(251)	(41)
Cash and cash equivalents at 30 June, represented by bank balances and cash	<u>471,553</u>	<u>419,062</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

1. GENERAL AND BASIS OF PREPARATION

The Company was an exempted company with limited liability incorporated in the Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman KY1-1111, Cayman Islands and its place of business in Hong Kong is located at Suite 3205B-3206, 32/F, Office Tower, Convention Plaza, No. 1, Harbour Road, Wanchai, Hong Kong. The Company is an investment holding company, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company's subsidiaries are principally engaged in the research and providing the solution for the safety and critical control system in chemical, petrochemical, coal chemical, oil and gas market and the railway safety control system in national railway/urban railway market.

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new or revised standards, amendments and interpretations ("new or revised IFRS") which are effective for the Group's financial year beginning on 1 January 2010.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs May 2008
IFRSs (Amendments)	Improvements to IFRSs April 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible Hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC 17	Distributions of Non-cash Assets to Owners

The Group applies IFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

The application of IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to other IFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

The application of the other new and revised IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

In addition, the Group has applied the following policy applicable to its investments in an associate which was established by the Group together with other investors during the current period.

Investments in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these condensed consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the condensed consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs issued in May 2010 ¹
IAS 24 (Revised)	Related Party Disclosures ⁴
IAS 32 (Amendment)	Classification of Rights Issues ²
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters ³
IFRS 9	Financial Instruments ⁵
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

The Group's operating segments, based on information reported to the Group's Chief Executive Officer and Operating Management Committee which is considered as the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment focuses more specifically on the category of customers. The principal categories of customers are petrochemical and railway. The Group's operating segments are as follows:

- Petrochemical – integration and sales of safety and critical control systems, trading of equipment, provision of maintenance and engineering service and sales of software products for the petrochemical, chemical, oil and gas, coal chemical industries.
- Railway – integration and sales of safety and critical control systems, trading of equipment, provision of maintenance and engineering service and sales of software products for the railway industry.

Information regarding the above segments is presented below.

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

Six months ended 30 June 2010

	Petrochemical <i>RMB'000</i>	Railway <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue	395,426	359,570	754,996
Segment profit before tax	82,012	97,314	179,326
Income tax expense	(6,914)	(11,528)	(18,442)
Segment profit	75,098	85,786	160,884
Unallocated other income			154
Unallocated administrative expenses			(3,960)
Unallocated other gain and loss			(42)
Profit for the period			157,036

Six months ended 30 June 2009

	Petrochemical <i>RMB'000</i>	Railway <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue	284,544	244,591	529,135
Segment profit before tax	59,612	83,531	143,143
Income tax expense	(1,027)	(11,134)	(12,161)
Segment profit	58,585	72,397	130,982
Unallocated other income			63
Unallocated administrative expenses			(6,751)
Profit for the period			124,294

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

Segment profit represents the post-tax profit earned by each segment without allocation of central administrative expenses and interest income of the Company. This is the measure reported to the Group's Chief Executive Officer and Operating Management Committee for the purposes of resource allocation and performance assessment.

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

Segment assets	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Petrochemical	1,307,310	1,062,349
Railway	1,050,367	919,311
	<u>2,357,677</u>	<u>1,981,660</u>
Total segment assets	<u><u>2,357,677</u></u>	<u><u>1,981,660</u></u>

Assets are allocated to operating segments other than bank balances and cash and property, plant and equipment of the Company.

4. OTHER INCOME

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	829	763
Value added tax ("VAT") refund (Note)	15,977	9,260
	<u>16,806</u>	<u>10,023</u>
	<u><u>16,806</u></u>	<u><u>10,023</u></u>

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

5. OTHER GAINS AND LOSSES

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Net foreign exchange loss	1,106	345
Allowance for bad and doubtful debts	2,298	—
Gain on disposal of property, plant and equipment	(90)	—
	<u>3,314</u>	<u>345</u>
	<u><u>3,314</u></u>	<u><u>345</u></u>

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax charge comprises:		
Hong Kong Profits Tax	4,661	852
PRC enterprise income tax	12,449	13,983
Other jurisdictions	—	697
	<u>17,110</u>	<u>15,532</u>
Deferred tax (note 13)	1,332	(3,371)
	<u>18,442</u>	<u>12,161</u>
	<u><u>18,442</u></u>	<u><u>12,161</u></u>

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

Certain subsidiaries of the Company operating in the PRC are eligible for tax holiday and concession. The tax holiday and concession are in the form of two years tax exemption from the first profit-making year, followed by 50% reduction of the applicable tax rate in the following three years. During the period ended 30 June 2010, Beijing Sindhu Industrial Software Co., Ltd. is under the first year of 50% the reduction. Beijing Consen Automation Control Co., Ltd. and Beijing Tri-Control Automation Co., Ltd. are under the third year of 50% tax reduction. During the period ended 30 June 2009, Beijing Sindhu Industrial Software Co., Ltd. is under the second year of tax exemption. Beijing Consen Automation Control Co., Ltd. and Beijing Tri-Control Automation Co., Ltd. are under the second year of 50% tax reduction.

Beijing Consen Transportation Technology Co., Ltd. ("Beijing Transportation") and Beijing Jiaoda Microunion Technology Co., Ltd. ("Beijing Jiaoda Microunion") are qualified as "New and High Tech Enterprises" and from 2008 to 2010 subject to enterprise income tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC.

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

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

7. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories expensed	431,916	285,149
Depreciation of property, plant and equipment	5,704	3,669
Amortisation of intangible assets (included in cost of sales)	1,488	2,802
Release of prepaid lease payment	292	292
Share-based payments	2,468	5,582
Operating lease rentals in respect of rented premises	8,438	9,084
	<u> </u>	<u> </u>

8. DIVIDENDS

Dividends recognised as distribution during the period:

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends	—	35,090

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 and six months ended 30 June 2009.

9. EARNINGS PER SHARE

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

Earnings	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	141,962	107,427

Number of shares	Six months ended 30 June	
	2010	2009
	<i>'000 shares</i>	<i>'000 shares</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,009,386	935,509
Effect of dilutive share options	6,461	895
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,015,847	936,404

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group purchased property, plant and equipment approximately RMB14,022,000 (six months ended 30 June 2009: RMB8,167,000) from third parties and disposed property, plant and equipment of approximately RMB532,000 to third parties.

In addition, the Group spent approximately RMB8,677,000 on the construction of its new office premises and buildings improvements in the current period (six months ended 30 June 2009: RMB3,653,000).

11. INTANGIBLE ASSET

During the period, development costs of RMB1,680,000 (six months ended 30 June 2009: RMB2,809,000) have been capitalised as intangible asset in the current period.

12. INTERESTS IN AN ASSOCIATE

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Cost of investments, unlisted	80,000	—

Details of the Group's associate are set out below.

Name of entity	Date and place of incorporation	Place of operations	Issued and fully paid up share capital/ registered capital	Equity interest attributable to the Group	Principal activities
吳忠儀表有限責任公司	27 January 2010 PRC	PRC	RMB320,000,000	25%	Manufacture of industry automatic control valves

The summarised financial information in respect of the Group's associate which is accounted for using the equity accounting method is set out below:

	30 June 2010 <i>RMB'000</i>	30 June 2009 <i>RMB'000</i>
Non-current assets		
– Property, plant and equipment	105,005	—
– Prepaid lease payments	54,997	—
Current assets - bank balances and cash	160,012	—
Current liabilities	—	—

13. DEFERRED TAX ASSETS/LIABILITIES

The deferred tax assets recognised by the Group and movements thereon during the reporting period are as follows:

	Allowance for doubtful debts	Deferred income	Tax losses	Fair value adjustment of intangible assets (note a)	Distributable profits of subsidiary (note b)	Other temporary difference (note c)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2009	1,322	9,358	637	(38,332)	(1,000)	1,753	(26,262)
(Charge) credit to income statement	—	(33)	677	305	—	2,422	3,371
At 30 June 2009	1,322	9,325	1,314	(38,027)	(1,000)	4,175	(22,891)
(Charge) credit to income statement	1,212	(247)	(1,314)	238	—	364	253
At 31 December 2009	2,534	9,078	—	(37,789)	(1,000)	4,539	(22,638)
(Charge) credit to income statement	325	(332)	—	—	—	(1,325)	(1,332)
At 30 June 2010	<u>2,859</u>	<u>8,746</u>	<u>—</u>	<u>(37,789)</u>	<u>(1,000)</u>	<u>3,214</u>	<u>(23,970)</u>

Notes:

- Deferred tax liabilities of fair value adjustment recognised by the Group represented the fair value adjustment on intangible assets arising from the business acquisition.
- Under the PRC Tax Law, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards at 5% according the relevant tax treaties. During the reporting period, deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries generated during the period amounting to RMB130,481,000 (six months ended 30 June 2009: RMB105,646,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.
- Other temporary differences mainly represent the temporary differences arising from the leasehold improvements, unpaid payroll and unexercised share option expenses.

The following is the analysis of the deferred tax balances for financial reporting purpose:

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
Deferred income tax assets	14,819	16,151
Deferred income tax liabilities	(38,789)	(38,789)
	<u>(23,970)</u>	<u>(22,638)</u>

At 30 June 2010, the Group had unused tax losses of approximately RMB44,973,000 (2009: RMB25,564,000) available to offset against future profits of respective subsidiaries. No deferred tax asset has been recognised in respect of the unrecognised tax losses due to the unpredictability of future profit streams of respective subsidiaries.

14. TRADE AND BILLS RECEIVABLES

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

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	421,255	305,681
91 - 180 days	240,409	128,620
181 - 365 days	64,357	88,574
1 - 2 years	57,092	63,614
2 - 3 years	457	3,966
	<u>783,570</u>	<u>590,455</u>

15. PLEDGED BANK DEPOSITS

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
Pledged bank deposits	<u>104,429</u>	<u>86,538</u>

The pledged bank deposits have been pledged to secure short-term banking facilities granted to the Group. The deposits carried effective interest of 0.01% to 2.56% for the period (2009: 0.01% to 3.33%) per annum and with maturity within one year.

16. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables (based on invoice date) at the reporting dates:

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	154,430	179,099
91 - 180 days	86,838	9,824
181 - 365 days	45,571	8,169
1 - 2 years	2	1,058
Over 2 years	6,491	6,505
	<u>293,332</u>	<u>204,655</u>

17. BORROWINGS

During the period, the Group obtained new bank loans amounting to approximately RMB270,944,000 (six months ended 30 June 2009: RMB170,600,000) and repaid bank loans amounting to approximately RMB234,808,000 (six months ended 30 June 2009: RMB162,039,000). The loans carry interest at market rates of 2.52% to 5.94% (six months ended 30 June 2009: 2.16% to 7.47%). The proceeds were used to finance capital expenditure and general working capital of the Group.

At 30 June 2010, certain assets of the Group including land, buildings, constructions in progress and bank deposits with aggregate carrying value of RMB130,563,000 (2009: RMB143,311,000) were pledged as security for loan facilities granted by banks.

18. DEFERRED INCOME

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	60,521	62,385
Addition	154	945
Released to income statement	(2,368)	(1,165)
	<u>58,307</u>	<u>62,165</u>

The Company's subsidiary, Beijing Jiaoda Microunion, has entered into arrangement to provide maintenance and operational services for the systems installed of up to ten years and it recognises revenue when the services are provided using the percentage of completion method. Service fees received in advance are recorded as deferred income and recognised as service fee income when the services are rendered.

19. SHARE CAPITAL

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Number of shares '000 shares	Amount HK'000	Number of shares '000 shares	Amount HK'000
Authorised:				
Ordinary shares of HK\$0.01	3,000,000	30,000	3,000,000	30,000
Issued and fully paid:				
At 1 January	1,006,684	10,067	909,256	9,093
Issue of new shares through placement (Note a)	—	—	86,000	860
Share repurchased and cancelled (Note b)	—	—	(84)	(1)
Issue of shares on exercise of share options (Note c)	12,654	126	—	—
At 30 June	<u>1,019,338</u>	<u>10,193</u>	<u>995,172</u>	<u>9,952</u>
Notes:			30 June 2010	30 June 2009
			<i>RMB'000</i>	<i>RMB'000</i>
Shown in the condensed consolidated statement of financial position			<u>9,487</u>	<u>9,274</u>

Notes:

- (a) Pursuant to a placing and subscription agreement dated 5 May 2009, 126,000,000 shares of HK\$0.01 each in the share capital then held by Consen Group Holding Inc. was placed on 8 May 2009 at placing price of HK\$2.30 per share and subscription of new shares of 86,000,000 by Consen Group Holding Inc. (the “subscription”) at the subscription price of HK\$2.30 per share, ranking pari passu in all respects among themselves and with the existing issued share of HK\$0.01 each in the share capital of the Company.
- (b) On 12 January 2009, the Company repurchased certain of its own shares of 84,000 shares through the Stock Exchange at an aggregate consideration of HK\$129,000 (equivalent to RMB114,000). All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK\$840 (equivalent to RMB1,000) was charged in the share capital and the premium paid on repurchase of HK\$128,000 (equivalent to RMB113,000) was charged against share premium in accordance with the Cayman Islands Companies Act.
- (c) During the period, options to subscribe for 11,986,000 shares and 668,000 shares in the Company at HK\$2.27 and HK\$2.26 per share respectively were exercised. The weighted average closing prices of the Company’s shares quoted on the Stock Exchange immediately before the exercise date was HK\$ 6.15.

Other than disclosed above, during the six month period ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

20. RESERVES

a. Other reserve

The other reserve represents amounts arising on the group reorganisation.

b. Statutory surplus reserves

As stipulated by the relevant PRC laws and regulations, before distribution of the net profit each year, the entities established in the PRC with limited liability shall set aside 10% of their net profit to the statutory surplus reserves. The statutory surplus reserves can only be used, upon approval by the board of directors of the relevant entities and by the relevant authority, to offset accumulated losses or increase capital.

c. Share option reserve

The share option reserve represents the recognition of the fair value of share options of the Company determined at the date of grant of the share options over the vesting period.

21. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

Details of the share options outstanding during the six months ended 30 June 2009 and 30 June 2010 are as follows:

	Outstanding at 1 January 2010	Lapsed during the year (note a)	Exercised during the year (note b)	Outstanding at 30 June 2010
Key management	9,632,000	(332,000)	(4,984,000)	4,316,000
Other employees	17,776,000	(2,352,000)	(7,670,000)	7,754,000
	<u>27,408,000</u>	<u>(2,684,000)</u>	<u>(12,654,000)</u>	<u>12,070,000</u>
Exercisable at the end of the period				<u>598,000</u>

Note:

(a) During the current period, totally 2,684,000 share options were lapsed.

(b) The weighted average market price at the dates of exercise for the period is HK\$6.15.

	Outstanding at 1 January 2009 and 30 June 2009
Key management	13,800,000
Other employees	25,148,000
	<u>38,948,000</u>
Exercisable at the end of the period	<u>13,436,000</u>

The Group recognised total expense of RMB2,468,000 (six months ended 30 June 2009: RMB5,582,000) for the six months ended 30 June 2010 in relation to the share options granted by the Company.

22. OPERATING LEASES

The Group as lessee

At the reporting date, 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 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	12,093	14,902
In the second to fifth year inclusive	8,833	14,809
	<u>20,926</u>	<u>29,711</u>

23. CAPITAL COMMITMENTS

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure contracted for but not provided in the consolidated financial statements		
– in respect of acquisition of leasehold land and building	12,354	13,084
– in respect of establishment of jointly controlled company	20,484	20,484
– in respect of establishment of an associate	—	80,000
	<u>32,838</u>	<u>113,568</u>

24. RELATED PARTY TRANSACTIONS

On 21 May 2009, Beijing Consen Automation Control Co., Ltd, a wholly owned subsidiary of the Company, acquired additional 5% equity interest in Beijing Transportation at a consideration of RMB5,100,000 from Mr. Yang Hong Yan, a director of Beijing Transportation. Upon completion of the acquisition, Beijing Transportation became a wholly owned subsidiary of the Company.

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

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	4,299	4,136
Retirement benefit scheme contributions	303	129
Share-based payments	697	1,892
	<u>5,299</u>	<u>6,157</u>

25. EVENTS AFTER THE END OF THE INTERIM PERIOD

The following event took place subsequent to 30 June 2010:

The Company's subsidiary, Beijing Liboyuan Investment Management Company Limited entered into a share purchase agreement on 1 July 2010, to purchase a 70% of equity interest in 中京公司 (Zhongjing Corporation Limited, "Zhongjing") at a consideration of RMB25,000,000. Zhongjing is a PRC company registered in Beijing and engaged in engineering design in petrochemical industry. The acquisition has not yet been completed as at the issuance date of this report.

MANAGEMENT DISCUSSIONS AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2010, revenue of the Group increased by 42.7% to RMB755 million (1H 2009: RMB529.1 million), compared with that of the corresponding period of last year.

The Group has adopted IFRS 8 Operating Segments with effective from 1 January 2009. Information reported to the Group's Chief Executive Officer and Operating Management Committee which is considered as the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment focuses more specifically on the category of customer. The principal categories of customers are petrochemical and railway.

Revenue generated from petrochemical segment significantly increased by 39% to RMB395.4 million (1H 2009: RMB284.5 million), whereas revenue generated from railway segment tremendously increased by 47% to RMB359.6 million (1H 2009: RMB244.6 million) for the six months ended 30 June 2010.

Turnover analysis by operating segment

	Six months ended 30 June				Change (%)
	2010	2009			
	(RMB' million)	%	(RMB' million)	%	
Petrochemical	395.4	52.4	284.5	53.8	39.0
Railway	359.6	47.6	244.6	46.2	47.0
	<u>755.0</u>	<u>100.0</u>	<u>529.1</u>	<u>100.0</u>	42.7

Turnover analysis by types of goods and services supplied

	Six months ended 30 June				Change (%)
	2010		2009		
	(RMB' million)	%	(RMB' million)	%	
System sales					
– Petrochemical	311.2	41.2	198.7	37.6	+56.6
– Railway	278.5	36.9	213.5	40.3	+30.4
Sub-total	589.7	78.1	412.2	77.9	+43.1
Provision of engineering and maintenance services	47.3	6.3	45.9	8.7	+3.1
Distribution of equipment	118.0	15.6	71.0	13.4	+66.2
Total	755.0	100.0	529.1	100.0	+42.7

On the basis of types of goods and services supplied by the Group, the revenue related to system sales, provision of engineering and maintenance services as well as distribution of equipment for the six months ended 30 June 2010 amounted to RMB589.7 million (1H 2009: RMB412.2 million), RMB47.3 million (1H 2009: RMB45.9 million) and RMB118 million (1H 2009: RMB71.0 million) respectively.

System sales to petrochemical industries

For the six months ended 30 June 2010, revenue generated from system sales in relation to the petrochemical industries increased by 56.6% to RMB311.2 million (1H 2009: RMB198.7 million). The significant growth was mainly attributable to (i) the Group's satisfactory organic growth through the consolidation and improvement of marketing efforts. As a result, the Group was able to maintain its market share; (ii) the Group completed quite a considerable number of coal chemical projects in light of the revival of the coal chemical projects (which were delayed in the previous year) resulting from the recovery of global economy and the anticipated rise of international oil price; as well as the increasing cost in natural gas; and (iii) the Group proactively adjusted its operating strategies to gradually develop the middle and downstream petrochemical markets, and tapped the upstream petrochemical market.

System sales to railway industries

For the six months ended 30 June 2010, revenue generated from system sales in relation to railway industries increased by 30.4% to RMB278.5 million (1H 2009: RMB213.5 million). The increase was mainly attributable to the significant organic growth in the national railway segment following the consistent and tremendous investment in new railway stations and renovation of old stations by the Ministry of Railways over the past years in China.

Provision of engineering and maintenance services

For the six months ended 30 June 2010, revenue generated from the provision of engineering and maintenance services marginally increased by 3.1% to RMB47.3 million (1H 2009: RMB45.9 million). The slow-down in growth was due to the tremendous growth achieved in the corresponding period of the previous year. However, the management of the Group is confident that a faster growth rate could be achieved in the second half of this year.

Distribution of equipment

For the six months ended 30 June 2010, revenue in relation to equipment distribution increased by 66.2% to approximately RMB118 million (1H 2009: RMB71 million). The management of the Group anticipated that this business segment could maintain the same momentum in the second half of this year.

In terms of business segment, 78.1% (1H 2009: 77.9%) of the revenue was generated from system sales, 6.3% (1H 2009: 8.7%) from the provision of engineering and maintenance services and 15.6% (1H 2009: 13.4%) was from distribution of equipment for the six months ended 30 June 2010.

In addition, in terms of industry segment, 52.4% (1H 2009: 53.8%) of the Group's revenue was generated from the petrochemical segment and 47.6% (1H 2009: 46.2%) was from the railway segment.

Gross profit

Gross profit for the six months ended 30 June 2010 was RMB303.1 million, representing a 25.9% growth over that of the corresponding period of last year.

The overall gross profit margin decreased by 5.4% to 40.1% for the six months ended 30 June 2010 (1H 2009: 45.5%).

Gross profit analysis by types of goods and services supplied

	Six months ended 30 June		
	2010 (%)	2009 (%)	Change (%)
System sales			
– Petrochemical	42.6	51.5	-8.9
– Railway	44.0	45.8	-1.8
Sub-total	43.3	48.6	-5.3
Provision of engineering and maintenance services	67.8	69.7	-1.9
Distribution of equipment	15.0	12.0	+3
Total	40.1	45.5	-5.4

Gross profit margin of system sales in relation to petrochemical industries

The gross profit margin decreased by 8.9% to 42.6% (1H 2009: 51.5%). The normal gross profit margin of system sales in relation to petrochemical industries is ranging from 40-45%. As such, the gross profit margin achieved was within the norm whereas that for the corresponding period of previous year was exceptionally high because of the increased sales to foreign invested projects in China, which demanded higher engineering standards and therefore enjoyed a higher margin.

Gross profit margin of system sales in relation to railway industries

The gross profit margin slightly decreased by 1.8% to 44% (1H 2009: 45.8%). The normal gross profit margin of system sales in relation to railway industries is ranging from 42-46%.

Gross profit margin of the provision of engineering and maintenance services

The overall gross profit margin slightly decreased by 1.9% to 67.8% (1H 2009: 69.7%) compared with that of the corresponding period of the previous year. The decrease in margin was mainly due to the increase in revenue of the proportion of lower margin spare part replacement and hardware renewal.

The management expects that given a relatively large and expanding installation client base for both the petrochemical and railway business, there is huge potential for the after sales engineering support services to become a significant and stable source of recurring revenue.

Gross profit margin of distribution of equipment

For the six months ended 30 June 2010, the gross profit margin of equipment distribution business increased by 3% to 15% (1H 2009: 12%).

Other income

For the six months ended 30 June 2010, other income increased by RMB6.8 million or 68% to RMB16.8 million. Thanks to government grant in relation to the VAT refund from local tax bureau for the transaction of preferential policy on corporation tax of software manufacturer.

Other Losses

For the six months ended 30 June 2010, other losses of RMB3.3 million were mainly resulted from the bad debt provision and foreign exchange loss.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2010 were RMB42.9 million, representing a growth of 3.4% compared with that of the corresponding period of last year.

Such increase was mainly attributable to (i) the increase in staff costs resulted from increased staff head-count for the petrochemical business as well as overall improved staff salaries and benefits to attract talents; and (ii) more traveling expenses incurred in line with the expanded business activities nationwide.

However, the significant increase in revenue of the Group in the six months ended 30 June 2010 resulted in a decline in selling and distribution expenses as a percentage of the Group's full year revenue from 7.8% to 5.7%.

Administrative expenses

Administrative expenses for the six months ended 30 June 2010 were RMB77.2 million, representing an increase of 27.8% when compared with that of the corresponding period of previous year.

Such increase was mainly attributable to (i) the increase in staff costs for the increased staff head-count for railway business in order to building up reserve to tap the metro and intercity market as well as the overall improved staff remuneration and (ii) increased traveling and entertainment expenses as well as office supplies, which were in line with the expanding business operation and emerging market opportunities.

However, the significant increase in revenue of the Group in the six months ended 30 June 2010 resulted in a decline in administrative expenses as a percentage of the Group's full year revenue from 11.4% to 10.2%

Research and development expenses

Research and development expenses for the six months ended 30 June 2010 were RMB10.1 million (1H 2009: RMB5 million), a 102% increase from that of the corresponding period of previous year.

Such increase was mainly attributable to the increase in research and development projects in relation to the development of new signaling related technology and products as well as upgrading the existing ones.

Finance costs

Finance costs for the six months ended 30 June 2010 increased by RMB3.6 million to RMB10.9 million (1H 2009: RMB7.3 million). Such increase was mainly attributable to higher level of bank charges and interest expenses which was in line with the higher utilization of trade finance and invoice financing as well as working capital loans for the period under review.

Income tax expenses

Income tax expenses amounted to RMB18.4 million for the six months ended 30 June 2010 which was 50.8% higher than that for the corresponding period of previous year (1H 2009: RMB12.2 million). This was mainly due to higher taxable profit arising from the income generated from Hong Kong operation which was engaged in more equipment distribution business as compared with that of the corresponding period of previous year. As such the effective tax rate of the Group for the six months ended 30 June 2010 increased by 1.6% to 10.5% (1H 2009: 8.9%).

Profit for the year

As a result of the foregoing, the Group recorded a net profit of the Company of RMB156.8 million for the six months ended 30 June 2010, representing an increase of RMB32.4 million or 26% when compared with that of the corresponding period last year. Net profit margin of the Company decreased by 2.7 percentage points to 20.8% for the six months ended 30 June 2010 (1H 2009: 23.5%).

Liquidity, financial resources and capital structure

The Group remained in a strong capital and cash position for the period under review.

The net cash used in operating activities decreased by RMB57.5 million to RMB18 million for the six months ended 30 June 2010 (1H 2009: RMB75.5 million) which was mainly attributable to the increase in trade and bills receivables as well as prepayments which was partially offset by the increase in trade and bills payables plus other payables, deposits and accruals. The increase in prepayments was in relation to the payments to the raw material suppliers for the metro project implementation.

Net cash used in investing activities increased by RMB19.2 million to RMB121.3 million for the six months ended 30 June 2010 (1H 2009: RMB102.1 million). The investment during the period were mainly (i) the acquisition of 25% equity interests in Wuzhong Instruments Company Limited at a consideration of RMB80 million; and (ii) the purchase of the plant and equipment amounted to RMB14 million and the investment of RMB8.7 million on the construction of the Group's new building complex comprising the headquarter, R&D center and production plant.

Net cash from financing activities decreased by RMB98.2 million to RMB38.6 million for the six months ended 30 June 2010 (1H 2009: RMB136.8 million). This was mainly due to no significant proceeds from issue of shares for the period under review as compared with the share placement completed in May 2009.

As at 30 June 2010, cash and bank balances (including bank deposits under conditions) amounted to RMB576 million (31 December 2009: RMB623.1 million). The working capital (net current assets) of the Group as at 30 June 2010 amounted to RMB1,134.7 million (31 December 2009: RMB1,050.3 million), representing an increase of 8% from that of 31 December 2009. The current ratio remained at a healthy level of 2.7 times (31 December 2009: 3 times).

Gearing position

The Group's prudent financial management policies enabled it to maintain a healthy net cash and bank balance of RMB258.2 million as at 30 June 2010 (31 December 2009: RMB389.2 million). All of which was deposited with commercial banks.

As at 30 June 2010, the total liabilities to shareholders equity increased to 52.3% (31 December 2009: 48.3%). Total liabilities of the Group amounted to RMB823.1 million (31 December 2009: RMB676.6 million).

As at 30 June 2010, the bank borrowings of the Group amounted to RMB317.8 million (31 December 2009: RMB233.9 million). All of which was related to trade finance and invoice financing as well as working capital loans.

The management of the Group is confident that the Group's existing financial resources and financing facilities will be sufficient for its future expansion plans. Should other opportunities arise requiring additional funding, the management also believes that the Group is in a good position to obtain financing on favourable terms.

Significant investments, mergers and acquisitions

For the six month ended 30 June 2010, the Group had no other significant investments, mergers and acquisitions and disposals of any subsidiaries and associated companies.

However, the Group signed a share purchase agreement on 1 July 2010 of which the Group will purchase 70% equity interests of Zhongjing Corporation Limited, "Zhongjing (中京公司)" at a consideration of RMB25 million. Zhongjing is a PRC company registered in Beijing according to the PRC law. Zhongjing is engaged in engineering design of petrochemical projects. The management of the Group believes that the acquisition will generate synergies in terms of vertical integration and allow the Group to develop upstream petrochemical engineering design project business.

Contingent liabilities

As at 30 June 2010, the Group had no material contingent liabilities.

FUTURE OUTLOOK

As the largest safety and critical control system solution provider in the petrochemical industry and one of the largest providers of railway signal solution system in China, the Group will continue to leverage its strengths in existing product, technology, market and engineering service to expand product application, optimise product mix, enhance research and development as well as extend service coverage. It will boost the steady and rapid development of the railway signaling business and the petrochemical business to facilitate the organic integration and balanced development of these business segments in the years ahead.

Railway signaling business

- **Organic growth**

Capitalising on its existing competitive edge in its products, technology, market and services, the Group will continue to maintain its leading position as one of the largest providers of railway signal solution system in China. Besides, it will leverage the rapid development of the railway industry in China to enhance research and development and expand product lines for meeting market demand and increasing market share.

For the state-owned railway business, the Group will continue to improve its existing signaling product systems and swiftly establish its express railway signaling control system product systems through independent research and development as well as external cooperation. Moreover, the Group will capitalize on the rapid development of the PRC railway industry by drawing support from the significant investment made by the government in infrastructure, the Medium-to-long term Rail Network Development Plan issued by the Ministry of Railways and the continued heavy investment made by local authorities in the urban rail transport industry to maintain the rapid growth of the Group's railway business.

Being one of the manufacturers designated by the authority of urban rail transport in China for the production of domestic communication signaling equipment, the Group will continue to bank on its technological strength in the existing railway signaling business to actively expand its urban rail transport communication signaling business and develop product series such as automatic train protection system (ATP) and automatic train operation system (ATO). The Group will strive for winning more railway and urban rail communication signaling projects in the form of general contracting.

In addition, the Group will develop the rail vehicle-related product industry closely related to signaling systems with high synergy to meet the market demands for its existing railway signaling systems. Through its continued cooperation with the world's renowned top 500 enterprises, the Group will expand its existing railway signaling product chain and improve the technology of such systems with a view to enhancing its market competitiveness and making strategic moves for its long-term development.

- **Investments and merger & acquisition**

The Group will actively expand its railway signaling business through various means, including joint venture, investment, merger and acquisition. For the purpose of its existing railway signaling business, the Group is actively identifying enterprises which have competitive edge in independent intellectual property rights, core technologies, marketing, sales and engineering resources and may deliver a high degree of synergy with the Group's existing railway signaling business as targets for investment and acquisition.

Petrochemical business

- **Organic growth**

As the largest safety and critical control system solution provider in China, the Group will continue to make steady improvement by taking advantage of its high market share. The Group will expand product application, optimise product mix, enhance research and development, and step up efforts in developing construction and after-sales services with a high gross profit margin.

The Group will commit to expanding the safety and critical control system solution business in the downstream of the petrochemical industry while developing the automatic safety solution business in the upstream of the gas pipeline network industry steadily. To cater for the demand of customers and optimize product mix, the Group will also endeavor to develop the automatic instrument business which can generate a strong synergy with its existing operations. With further enhanced composite solutions of industrial automation, turnover of the Group is poised to increase.

The Group will actively capitalise on the Group's accumulated market, manpower and technical resources to strive to become a core integrated automatic solution provider in the petrochemical industry within the next few years.

- **Expanding overseas markets**

Leveraging its excellent capacity in engineering and provision of service, sophisticated experience in overseas project management and the advantage of relatively low cost of domestic labour, the Group will provide safety and critical integrated solutions of automatic control systems to international customers through its existing presence in North America, Singapore and Japan, with Turbine Machinery Control (“TMC”) product series as its major products.

The Group will continue to actively develop the international market and provide quality automation products and technical services to overseas customers so that the overseas business with a high gross profit can make an even greater contribution to the Group’s turnover.

- **Investment and merger & acquisition**

The Group will expand its petrochemical business through joint-venture, investment, as well as merger and acquisition. In respect of the safety and critical control system business, the Group will identify enterprises which have competitive edge in proprietary intellectual property rights, core technologies, marketing, sales and engineering resources and may deliver high synergy with the Group’s existing business as targets for investment and acquisition.

In general, the Group will develop its railway business and its petrochemical business in a positive, prudent, cautious, steady and rapid manner to maximize shareholder returns.

OTHER INFORMATION

INTERIM DIVIDEND

For the six months ended 30 June 2010, the board of directors of the Company (“Directors”) has resolved not to declare any interim dividend.

USE OF NET PROCEEDS FROM THE IPO EXERCISE

The Company raised an aggregate net proceeds of approximately HK\$319.5 million from the issuance of equity securities pursuant to the issue of an aggregate of 230,000,000 shares of HK\$0.01 each in the Company (the “Shares”) pursuant to the Share Offer. As at 30 June 2010, the Group had used the net proceeds from the Share Offer as follows:-

Use of Proceeds	Net IPO proceeds (HK\$ million)		
	Available	Utilised	Unutilised
Construction of a new complex	40.0	27.7	12.3
Research and development expenses	40.0	40.0	0.0
Expansion and improvement of the Group’s sales network	30.0	30.0	0.0
Expansion and improvement of the Group’s service network	25.0	21.2	3.8
Pursuing suitable acquisition	60.0	60.0	0.0
Setting up an overseas office	30.0	27.5	2.5
General corporate purposes and working capital	94.5	94.5	0.0
	<u>319.5</u>	<u>300.9</u>	<u>18.6</u>

As at 30 June 2010, the amount of unutilised proceeds from the Share Offer was approximately HK\$18.6 million and will be used for other purposes as described in the prospectus of the Company dated 28 June 2007.

USE OF NET PROCEEDS FROM THE PLACING EXERCISE

Pursuant to a placing and subscription agreement dated 5 May 2009 entered into among the Company, Consen Group Holding Inc. (“Consen Group”), CLSA Limited, Daiwa Securities SMBC Hong Kong Limited and Mr. Xuan Rui Guo which was completed on 15 May 2009, 126,000,000 Shares then held by Consen Group were placed at a placing price of HK\$2.30 per Share (the “Placing”) and subsequently Consen Group subscribed for 86,000,000 new Shares, which were allotted and issued by the Company to Consen Group at a price of HK\$2.3 per Share (the “Subscription”) and such Shares ranked pari passu in all respects with the existing issued Shares on the completion date of the

Subscription. The Placing and the Subscription are effected to raise funds for the long-term benefit of the Company. The net proceeds from the Subscription, amounting to approximately HK\$193.32 million, were duly received by the Company on 15 May 2009. As at 30 June 2010, approximately HK\$91.7 million (equivalent to RMB80 million) had been utilized to pay up the 25% equity interests of Wuzhong Instruments Company Limited and the balance of net proceeds of HK\$101.62 million remains unutilized. The Company intended to use the net proceeds of the Subscription for potential acquisition or investment opportunities in related businesses.

FOREIGN CURRENCY EXPOSURE AND TREASURY POLICY

The Group is exposed to the exchange rate risk between United States dollars, Japanese Yen and Renminbi. In practice, the majority of the Group's sales are denominated in Renminbi. However, the purchases of raw materials from its suppliers are mainly denominated in United States dollars and Japanese Yen. Given the appreciation of Renminbi against the United States dollars announced in July 2005, favorable impacts are expected to be brought to the Group's future financial performance in terms of reducing raw material costs. For the core hardware purchase from a Japanese supplier denominated in Japanese Yen for developing the railway signaling system, the Group monitors closely the fluctuation of Japanese Yen and shall procure any hedging contracts if necessary. The Group's bank deposits are predominantly denominated in Hong Kong dollars and Renminbi. The Directors are of the opinion that appreciation of Renminbi would not cause any significant adverse effect on the financial performance and position of the Group.

It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will appropriately hedge its foreign currency exposure. For the six months ended 30 June 2010, the Company did not use any financial instruments or enter into any contracts in order to hedge against its foreign currency exchange risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group had 986 employees (31 December 2009: 836).

The increase of 150 employees was mainly due to (i) building up additional engineers, R&D engineers and sales engineers reserves in order to capture the emerging metro and intercity railway markets business opportunities; and (ii) additional engineers and sales engineers for development of process control system business, oil & gas SCADA system and emerging downstream petrochemical business opportunities.

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2010, 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 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) Director's interests 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	Other interest			
Mr. Xuan Rui Guo (Note)	—	—	457,633,541	—	—	457,633,541	44.89%

Note: Consen Group is the legal and beneficial owner of 457,633,541 Shares. Since 27 April 2010 Consen Group is owned as to 93.80% by Consen Investments Holding Inc. ("Consen Investments"), which in turn is 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 is deemed to be interested in the 457,633,541 Shares held by Consen Group by virtue of the SFO.

(ii) Director's interests 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	Other interest			
Consen Investments	Mr. Xuan	500,000	—	—	—	500,000	50%	
	Mr. Huang	250,000	—	—	—	250,000	25%	
	Mr. Kuang	250,000	—	—	—	250,000	25%	
Consen Group (Note)	Mr. Xuan	—	—	5,000,000	—	5,000,000	93.8%	

Note: Consen Investments is the legal and beneficial owner of 5,000,000 shares in Consen Group. Consen Investments is legally and beneficially owned as to 50% by Mr. Xuan, 25% by Mr. Huang and 25% by Mr. Kuang. Accordingly, Mr. Xuan is 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 2010, 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

(a) Interest in the Company

As at 30 June 2010, the persons (not being a Director or chief executive of the Company), had interests and short positions in the shares or underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO:-

Name	Capacity	Number of shares	Percentage of holding
Consen Group	Registered & beneficial owner	457,633,541	44.89%
Consen Investments (Note)	Interest in a controlled corporation	457,633,541	44.89%
DnB NOR Asset Management (Asia) Ltd	Registered & beneficial owner (Investment Manager)	69,957,000	6.86%
FMR LLC	Registered & beneficial owner (Investment Manager)	64,662,000	6.34%

Note:

Since 27 April 2010, Consen Group is owned as to 93.80% by Consen Investments and 6.20% by Gembest. Therefore, Consen Investments is deemed to be interested in such 457,633,541 shares held by Consen Group under the SFO.

(b) Interest in other members of the Group

As at 30 June 2010, so far as the Directors are aware, no persons were directly or indirectly interested in 10% or more of the voting power at any general meeting of any member of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2010, the Company has not repurchased any shares through the Stock Exchange.

SHARE OPTION SCHEME

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

As at 30 June 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 12,070,000, (31 December 2009: 27,408,000) representing 1.33% (31 December 2009: 2.72%) of the shares of the Company in issue as at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. 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 of the Company 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 excess of 0.1% of the Company's share capital or with a value 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 eligible employee to the Company on acceptance of the option as consideration for the grant. 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 Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of the share options exercised during the period and outstanding at 30 June 2010 are as follows:

	Outstanding at 1 January 2010	Cancelled during the period	Exercised during the period	Outstanding at 30 June 2010
Key management	9,632,000	332,000	4,984,000	4,316,000
Other employees	17,776,000	2,352,000	7,670,000	7,754,000
	<u>27,408,000</u>	<u>2,684,000</u>	<u>12,654,000</u>	<u>12,070,000</u>
Exercisable at the end of the period				<u>598,000</u>

Details of the share options exercised during the period and outstanding at 30 June 2009 are as follows:

	Outstanding at 1 January 2009	Reclassified during the period	Exercised during the period	Outstanding at 30 June 2009
Key management	13,800,000	—	—	13,800,000
Other employees	25,148,000	—	—	25,148,000
	<u>38,948,000</u>	<u>—</u>	<u>—</u>	<u>38,948,000</u>
Exercisable at the end of the period				<u>13,436,000</u>

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

The Company had complied with the applicable code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). In respect of the six months ended 30 June 2010 (the “Relevant Period”), all the code provisions set out in the Code were complied with by the Company.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. The Company has made specific enquiries of all the Directors, and all of them had confirmed that they have complied with the required standard of dealings set out therein during the Relevant Period.

MATERIAL LITIGATION AND ARBITRATION

The Group was not involved in any material litigation and arbitration during the six months ended 30 June 2010.

AUDIT COMMITTEE

The Company has set up an audit committee in accordance with the requirements of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The consolidated financial statements of the Group for the six months ended 30 June 2010 and the related disclosures have been reviewed and approved by the audit committee.

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

Hong Kong, 19 August, 2010

As at the date of this announcement, the Board comprises three executive directors, being Mr. Xuan Rui Guo (Chairman), Mr. Huang Zhi Yong and Mr. Kuang Jian Ping and three independent non-executive directors, being Mr. Tang Min, Mr. Wang Tai Wen and Mr. Ng Wing Fai.