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CHINA HIGH PRECISION AUTOMATION GROUP LIMITED
中國高精密自動化集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 591)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

The board (the "Board") of directors (the "Directors") of China High Precision Automation Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 31 December 2012 (the "Period").

CONSOLIDATED INCOME STATEMENT
For the six months ended 31 December 2012
(Expressed in Renminbi Yuan)

		Six months ended 31 December	
	Note	**2012**	2011
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**284,164**	496,790
Cost of sales		**(193,248)**	(263,656)
Gross profit		**90,916**	233,134
Other revenue	*4*	**2,991**	5,649
Other net income/(loss)	*4*	**1,370**	(2,460)
Distribution costs		**(3,524)**	(4,344)
Administrative expenses		**(22,264)**	(24,084)
Profit from operations		**69,489**	207,895
Finance costs	*5(a)*	**—**	—
Profit before taxation	*5*	**69,489**	207,895
Income tax	*6*	**(11,381)**	(33,241)
Profit for the period attributable to equity shareholders of the Company		**58,108**	174,654
Earnings per share *(RMB cents)*	*7*		
— basic		**5.60**	16.83
— diluted		**5.60**	16.83

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2012

(Expressed in Renminbi Yuan)

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period attributable to equity shareholders of the Company	**58,108**	174,654
Other comprehensive income for the period		
Exchange differences on translation of financial statements of operations outside the PRC (excluding Hong Kong)	**(1,714)**	(7,850)
Total comprehensive income for the period attributable to equity shareholders of the Company	**56,394**	166,804

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

(Expressed in Renminbi Yuan)

	Note	**At 31 December 2012** *RMB'000* **(Unaudited)**	At 30 June 2012 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**595,626**	599,481
Construction in progress		**4,004**	—
Interests in leasehold land held for own use under operating leases		**9,748**	9,861
Deposits for the purchase of property, plant and equipment		**50,140**	53,373
Investment in a jointly controlled entity	*9*	**3,250**	3,072
Deferred tax assets		**2,433**	2,433
		665,201	668,220
Current assets			
Inventories		**100,139**	74,757
Trade and other receivables	*10*	**332,323**	438,036
Cash and cash equivalents		**1,315,482**	1,212,738
		1,747,944	1,725,531
Current liabilities			
Trade and other payables	*11*	**114,895**	131,490
Current taxation		**2,791**	6,572
Provision for warranty		**815**	574
		118,501	138,636
Net current assets		**1,629,443**	1,586,895
Total assets less current liabilities		**2,294,644**	2,255,115
Non-current liabilities			
Deferred tax liabilities		**18,067**	18,067
		18,067	18,067
NET ASSETS		**2,276,577**	2,237,048
CAPITAL AND RESERVES			
Share capital		**91,360**	91,360
Reserves		**2,185,217**	2,145,688
TOTAL EQUITY		**2,276,577**	2,237,048

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2012 — unaudited

(Expressed in Renminbi Yuan)

	Attributable to equity shareholders of the Company							
	Share capital	**Share premium**	**Surplus reserve**	**Share-based compensation reserve**	**Other reserve**	**Exchange reserve**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 July 2011	91,360	1,005,530	130,341	53,204	2,982	(8,080)	737,539	2,012,876
Changes in equity for the year ended 30 June 2012:								
Profit for the year	—	—	—	—	—	—	259,193	259,193
Other comprehensive income	—	—	—	—	—	(13,204)	—	(13,204)
Total comprehensive income	—	—	—	—	—	(13,204)	259,193	245,989
Dividend declared and paid	—	(47,454)	—	—	—	—	—	(47,454)
Equity settled share-based payments	—	—	—	25,637	—	—	—	25,637
Appropriation to surplus reserve	—	—	29,354	—	—	—	(29,354)	—
Balance at 30 June 2012 and 1 July 2012	**91,360**	**958,076**	**159,695**	**78,841**	**2,982**	**(21,284)**	**967,378**	**2,237,048**
Changes in equity for the six months ended 31 December 2012:								
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**58,108**	**58,108**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**(1,714)**	**—**	**(1,714)**
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**(1,714)**	**58,108**	**56,394**
Dividend declared and paid	**—**	**(16,865)**	**—**	**—**	**—**	**—**	**—**	**(16,865)**
Appropriation to surplus reserve	**—**	**—**	**16,682**	**—**	**—**	**—**	**(16,682)**	**—**
Balance at 31 December 2012	**91,360**	**941,211**	**176,377**	**78,841**	**2,982**	**(22,998)**	**1,008,804**	**2,276,577**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2012
(Expressed in Renminbi Yuan)

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash generated from operations	**145,803**	64,493
PRC income tax paid	**(15,163)**	(35,933)
Net cash generated from operating activities	**130,640**	28,560
Net cash used in investing activities	**(11,030)**	(78,480)
Net cash used in financing activities	**(16,866)**	(45,259)
Net decrease in cash and cash equivalents	**102,744**	(96,179)
Cash and cash equivalents at beginning of the period	**1,212,738**	1,257,031
Cash and cash equivalents at end of the period	**1,315,482**	1,160,852

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 28 February 2013.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial information and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with applicable Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 30 June 2012 that is included in the interim financial information as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2012 are available from the Company's registered office. The auditors have expressed a true and fair view on those financial statements in their report dated 28 September 2012.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 1 (Amendments), *Presentation of Items of Other Comprehensive Income*
- HKAS 12 (Amendments), *Deferred Tax: Recovery of Underlying Assets*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

These developments have had no material impact on the contents of these financial statements.

3. TURNOVER

The principal activities of the Group are the manufacture and sales of high precision industrial automation instrument and technology products as well as horological instruments.

Turnover represents the sales value of goods sold less returns, discounts, and value added taxes and other sales taxes. The amount of each significant category of revenue recognised during the period presented is as follows:

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of automation instrument and technology products	**240,642**	432,848
Sales of horological instruments	**43,522**	63,942
	284,164	496,790

During the six months ended 31 December 2012, there was no customer (unaudited) with whom transactions have exceeded 10% of the Group's turnover (six months ended 31 December 2011: Nil (unaudited)).

4. OTHER REVENUE AND OTHER NET INCOME/(LOSS)

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other revenue		
Bank interest income	**2,813**	5,649
Share of profit of a jointly controlled entity	**178**	—
	2,991	5,649
Other net income/(loss)		
Net exchange gain/(loss)	**1,370**	(2,460)

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(a) Finance costs	**—**	—
(b) Staff costs:		
Contributions to defined contribution retirement plans	**943**	855
Salaries, wages and other benefits	**24,565**	24,310
	25,508	25,165

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian province whereby the Group is required to make a contribution at the rate of 18% of the eligible employees' salaries to the Scheme. The Group has accrued for the required pension fund contributions, which are remitted to the social security office in the Fujian province when the contributions become due. The social security office in the Fujian province is responsible for making the benefit payments to the retired employee covered under the Scheme.

The Group maintains a mandatory provident fund (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employees' contributions to the MPF Scheme are based on 5% of the employees' relevant income (up to a cap of monthly relevant income of HK$25,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

The Group has no other material obligation for the payment of pension benefits associated with the two schemes beyond the annual contributions described above.

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(c) Other items:		
Depreciation	**13,694**	11,137
Amortisation	**113**	113
Research and development costs	**2,452**	4,486
Increase in provision for warranty	**241**	433
Operating lease charges:		
minimum lease payments — properties	**744**	867
Cost of inventories *(note)*	**193,248**	263,656

Note: Cost of inventories includes RMB21,541,000 (unaudited) (six months ended 31 December 2011: RMB20,308,000 (unaudited)) relating to staff costs, depreciation and amortisation expenses, amounts of which are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6. INCOME TAX

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax — PRC Income Tax		
Provision for the period	**11,381**	33,241

(i) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

(ii) No provision has been made for Hong Kong Profits Tax as the Group does not have assessable profits subject to Hong Kong Profits Tax during the period (unaudited) (six months ended 31 December 2011: Nil (unaudited)).

(iii) Pursuant to the income tax rules and regulations of the PRC, a recognised Advanced and New Technology Enterprise ("ANTE") that meets the conditions according to the Notice on Issuance of the *Administrative Measures governing the Recognition of Advanced and New Technology Enterprises* issued on 14 April 2008 is entitled to a reduced income tax rate of 15%. On 12 December 2008, Fujian Wide Plus Precision Instrument Co., Ltd. ("Fujian Wide Plus") was recognised as an ANTE as approved by the relevant authorities.

From 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. As Fujian Wide Plus is directly and wholly held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax under the double tax arrangement between Hong Kong and the PRC. Deferred tax liabilities have been recognised for undistributed retained profits of Fujian Wide Plus earned since 1 January 2008 to the extent that the profits are likely to be distributed in the foreseeable future.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB58,108,000 (unaudited) (six months ended 31 December 2011: RMB174,654,000 (unaudited)) and the weighted average of 1,037,500,000 ordinary shares (unaudited) (six months ended 31 December 2011: 1,037,500,000 ordinary shares (unaudited)) in issue during the interim period, calculated as follows:

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Net profit (basic and diluted)	**58,108**	174,654

	Six months ended 31 December	
	2012	2011
	'000	*'000*
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares:		
Issued ordinary shares at beginning and end of the period	**1,037,500**	1,037,500
Weighted average number of ordinary shares (basic)	**1,037,500**	1,037,500

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 31 December 2012 of RMB58,108,000 (unaudited) (six months ended 31 December 2011: RMB174,654,000 (unaudited)) and weighted average number of ordinary shares in issue adjusted for the potential dilutive effects caused by the share options, assuming they were exercised during the Period. For the six months ended 31 December 2012, the share options had no dilutive effect as the average market price of ordinary shares during the period did not exceed the exercise price of the options.

	Six months ended 31 December	
	2012	2011
	'000	*'000*
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares (basic)	**1,037,500**	1,037,500
Weighted average number of ordinary shares (diluted)	**1,037,500**	1,037,500

8. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Automation instrument and technology products: the manufacture and trading of intelligent display instruments, flow accumulate instruments, pressure transmitters and logging control instruments.

Horological instruments: the manufacture and trading of multi-functional all-plastic quartz watch movements.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of other corporate assets. Segment liabilities include trade and other payables as well as provision for warranty attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted profit from operations". To arrive at reporting segment profit, the Group's profit from operations is adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs. In addition to receiving segment information concerning adjusted profit from operations, management is provided with segment information concerning revenue and additions to non-current segment assets.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 31 December 2012 and 2011 is set out below.

For the six months ended 31 December	**Automation instrument and technology products**		**Horological instruments**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Reportable segment revenue	**240,642**	432,848	**43,522**	63,942	**284,164**	496,790
Reportable segment profit/(loss) (adjusted profit/(loss) from operations)	**85,636**	200,885	**(696)**	23,419	**84,940**	224,304

	Automation instrument and technology products		**Horological instruments**		**Total**	
	At 31 December 2012	At 30 June 2012	**At 31 December 2012**	At 30 June 2012	**At 31 December 2012**	At 30 June 2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Reportable segment assets	**820,097**	914,622	**217,673**	204,258	**1,037,770**	1,118,880
Addition to non-current segment assets during the six months ended 31 December 2012/year	**4,877**	149,885	**7,043**	25,748	**11,920**	175,633
Reportable segment liabilities	**67,221**	76,753	**11,573**	10,133	**78,794**	86,886

(b) Reconciliations of reportable segment revenues, profit, assets and liabilities

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Reportable segment revenue	**284,164**	496,790
Consolidated turnover	**284,164**	496,790

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit		
Reportable segment profit	**84,940**	224,304
Unallocated head office and corporate expenses	**(15,451)**	(16,409)
Consolidated profit before taxation	**69,489**	207,895

	At	At
	31 December	30 June
	2012	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Assets		
Reportable segment assets	**1,037,770**	1,118,880
Unallocated head office and corporate assets	**1,375,375**	1,274,871
Consolidated total assets	**2,413,145**	2,393,751

	At	At
	31 December	30 June
	2012	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Liabilities		
Reportable segment liabilities	**78,794**	86,886
Unallocated head office and corporate liabilities	**57,774**	69,817
Consolidated total liabilities	**136,568**	156,703

9. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	At 31 December 2012 *RMB'000* (Unaudited)	At 30 June 2012 *RMB'000* (Audited)
Unlisted investment, at cost	**3,072**	3,072
Share of profit for the period	**178**	—
Group's share of net assets	**3,250**	3,072

Details of the group's investment in a jointly controlled entity at 31 December 2012 are as follows:

Name of jointly controlled entity	Place of incorporation/ establishment and operation	Registered capital paid	Proportion of ownership interest: Group effective interest	Held by the company	Held by a subsidiary	Principal activities
Baotou Wide Plus Precision Instrument Co., Ltd. ("Baotou Wide Plus")	PRC	RMB6,041,000	49%	—	49%	Manufacture and sale of high precision industrial automation instrument and technology products and industrial automation system integrator

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis:

	At 31 December 2012 *RMB'000* (Unaudited)	At 30 June 2012 *RMB'000* (Audited)
Neither past due nor impaired (current)	**327,266**	410,993
Less than 1 month past due	**—**	22,276
Trade receivables, net of allowance for doubtful debts	**327,266**	433,269
Prepayments and other receivables	**5,057**	4,767
	332,323	438,036

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following ageing analysis:

	At 31 December 2012 RMB'000 (Unaudited)	At 30 June 2012 RMB'000 (Audited)
Due within 1 month or on demand	**758**	2,260
Due after 1 month but within 3 months	**47,671**	45,854
Due after 3 months but within 6 months	**30,288**	38,198
Total trade payables	**78,717**	86,312
Other payables and accruals	**36,178**	45,178
	114,895	131,490

12. DIVIDENDS

Dividend payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK$2 cents per ordinary share (six months ended 31 December 2011: HK$5.5 cents (unaudited) per ordinary share)	**16,865**	46,261

MANAGEMENT DISCUSSION AND ANALYSIS

Market and Business Review

The China's general economy headed for a steady growth track after hitting rock bottom in the second quarter of 2012 with gross domestic product ("GDP") rising slightly up to 7.9% in the fourth quarter from 7.4% in the third quarter. China Manufacturing Purchasing Managers Index in the fourth quarter rebounded to a level above 50 from a level below 50 in August and September. The Industrial Enterprise Total Profits Index, on average, improved to a positive growth of 2.9% in the fourth quarter from a negative growth of 2.5% in the third quarter. Nevertheless, there were a number of uncertainties in the Chinese manufacturing industry. The Industrial Product Price Indices in the third and fourth quarter were -3.3% and -2.3% respectively, representing noteworthy differences as compared to a growth of 7.1% and 3.1%, respectively, in the corresponding periods last year. The Chinese automation instrument industry has also involved uncertainties. According to China Machinery Industry Federation, total amount of a variety of imported industrial automation products, including automatic regulator or controller, flow meter, fluid level indicator and pressure detector, was substantially lower than total quantity of the imports on pro rata basis. For instance, import volume of automatic regulator or controller in the first three quarters in 2012 was approximately 35,000,000 units, representing an increase of 6.34% as compared to that of the same period of the previous year, but total import amount was approximately US$3 billion, representing a decrease of 16.57% as compared to that of the same period of the previous year, indicating a drop in price of the imported products.

Our operating results were materially affected by the macro-economic adjustments, uncertainties in the industry and the drop in product price. Quantities and prices of watch movements and automation instruments faced downward pressure, and decrease in prices of old products, such as indicators, was substantial. Sales performance of detectors remained relatively flat. The products with worst sales performance were high-end controllers, which are principally supplied to steel industry, infrastructure and related industries, due to overcapacity in these industries resulting from orders cancellation in the interim period. In addition, marketing and promotion of our products were adversely affected, to a certain extent, by trading suspension of shares of the Company. Our overall margin was dragged down by sliding prices.

Segment Information

The Group has the following two business segments.

Automation instrument and technology products

During the Period, sales of high precision industrial automation instrument and technology products amounted to RMB240,642,000 (six months ended 31 December 2011: RMB432,848,000), representing approximately 84.7% (six months ended 31 December 2011: 87.1%) of the Group's total turnover. The Group continued to focus on the production and expansion of high precision industrial automation instrument and technology products, and to manage its inventory levels and its distribution network. Reportable segment profit of this business segment was RMB85,636,000 (six months ended 31 December 2011: RMB200,885,000), representing a decrease of about 57.4% as compared to that of the corresponding period in 2011 due to the decrease in segment turnover.

Horological instruments

Sales of horological instruments amounted to RMB43,522,000 (six months ended 31 December 2011: RMB63,942,000), which accounts for approximately 15.3% (six months ended 31 December 2011: 12.9%) of the Group's total turnover during the Period. This segment recorded reportable segment loss of RMB696,000 as compared to a profit of RMB23,419,000 in the corresponding period in 2011 due to the decrease in segment turnover.

Manufacturing Facilities

The Group has large-scale production facilities and is expanding its production capacity to enhance its competitive strength.

As the utilization rate of the existing manufacturing facility (1st phase development) of the Group located at Lot No. 15, Kuaian Road, Mawei Science and Technology Park, Fuzhou (福州馬尾科技園區快安大道15號地) has reached its maximum since 2008, the Group is in the process of expanding and upgrading its production capacity in two phases (i.e. 2nd and 3rd phase developments). Both developments are located at Long Men Village, Kuaian Technology Park, Fuzhou Economic and Technological Development Zone (福州經濟技術開發區快安科技園龍門村) in the PRC, covering a total site area of approximately 47,665 square metres.

The 2nd phase development is solely for the expansion of the Group's production capacity of its existing products. The factory on site commenced production in 2010 and reached its full-scale production capacity in June 2011; accordingly, the Group's production capacity of its existing products has been doubled as scheduled.

The 3rd phase development is solely for actuators, one of the Group's new products. The construction was completed before 30 June 2012, and is expected to reach its full-scale production capacity in 2014. In light of the instability of the global market, the Directors will proceed with the future developments cautiously.

Prospect

Our management takes a conservative view on business prospects in the coming six months. It is observed that the domestic manufacturing industry is undergoing structural transformation. In general, domestic manufacturers are facing a number of difficulties, such as low bargaining power, rising labor cost and insufficiency of financing resources. The industry will develop towards enterprise upgrading and regeneration, but the progress of moving from "low-end" to "high-end" may take time. It is observed that majority of domestic industries has been hit by overcapacity which leads to a spread of downturn. Further, due to the drop in product price and increasing competition, our management anticipates that profit of the Company will remain under pressure in the short term.

In view of uncertain economic outlook, our management adopts a contraction policy and undergoes structural adjustment and transformation. Concurrently, we will keenly expand the business of high-growth industries, put more efforts on research and development for new products and reserve resources for expansion whenever opportunity arises.

Financial Review

Turnover

Turnover of the Group amounted to RMB284,164,000 for the Period (six months ended 31 December 2011: RMB496,790,000), representing a decrease of about 42.8% as compared to the corresponding period last year. The decrease is mainly due to the adverse effect of the sluggish global economy which causes (i) decrease in demand of industrial automation instrument and technology products and (ii) decrease in unit selling price.

Gross profit and profit from operations

During the Period, the Group's gross profit and profit from operations amounted to RMB90,916,000 (six months ended 31 December 2011: RMB233,134,000) and RMB69,489,000 (six months ended 31 December 2011: RMB207,895,000) respectively. The decrease is in line with the decrease in turnover.

The segment gross profit margin of automation instrument and technology products segment decreased from 48.3% for the six months ended 31 December 2011 to 37.7% for the Period. It was mainly due to the decrease in unit selling price.

The segment gross profit margin of horological instruments segment substantially decreased from 37.4% for the six months ended 31 December 2011 to 0.4% for the Period while the average unit selling price substantially decreased from RMB1.86 for the six months ended 31 December 2011 to RMB1.32 for the Period. The Group adjusts the selling prices from time to time, if necessary, to maintain its market share in an intensely price competitive market.

Accordingly, during the Period, the Group's profit from operations decreased by 66.6% as compared to that of the corresponding period last year.

Net profit

The profit attributable to equity shareholders of the Company for the Period was RMB58,108,000, as compared to that of RMB174,654,000 in the corresponding period in 2011. It was mainly due to the factors as mentioned above.

Earnings per share

The basic and diluted earnings per share for the Period was RMB5.60 cents (six months ended 31 December 2011: RMB16.83 cents) and RMB5.60 cents (six months ended 31 December 2011: RMB16.83 cents) respectively.

Liquidity and Financial Resources

During the Period, the Group's working capital requirement was principally financed by its internal resources.

As at 31 December 2012, the Group had cash and cash equivalents, net current assets and total assets less current liabilities of RMB1,315,482,000 (30 June 2012: RMB1,212,738,000), RMB1,629,443,000 (30 June 2012: RMB1,586,895,000) and RMB2,294,644,000 (30 June 2012: RMB2,255,115,000) respectively.

Borrowings

As at 31 December 2012, the Group had no bank borrowings (30 June 2012: Nil).

Equity

Total equity attributable to equity shareholders of the Company as at 31 December 2012 increased by RMB39,529,000 to RMB2,276,577,000 (30 June 2012: RMB2,237,048,000).

Gearing ratio

The gearing ratio (calculated as the ratio of current liabilities plus non-current liabilities: total equity) of the Group as at 31 December 2012 was approximately 0.1 (30 June 2012: approximately 0.1).

Use of Proceeds from the Placing and the Public Offer

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with a total of 287,500,000 offer shares (including shares issued as a result of the exercise of the over-allotment option), and the net proceeds from the placing and the public offer of approximately HK$1,043,000,000 (the "Net Proceeds") will mainly be utilized as follows:

1. Approximately HK$711 million will be used for establishment of production facilities for new products of the Group;

2. Approximately HK$129 million will be used for research and development efforts;

3. Approximately HK$81 million will be used for network development and sales support services;

4. Approximately HK$18 million will be used for the Group's information system development; and

5. Approximately HK$104 million will be used for general working capital.

Up to 31 December 2012, the Group has utilized the Net Proceeds as follows:

1. Approximately HK$498 million were used for establishment of production facilities for new products of the Group;

2. Approximately HK$58 million were used for research and development efforts;

3. Approximately HK$32 million were used for network development and sales support services; and

4. Approximately HK$2 million were used for the Group's information system development.

The remaining balance of the Net Proceeds has been placed in the short-term deposits with financial institutions.

Significant Investments

Saved as the investment in a jointly controlled entity as disclosed in note 9 to the unaudited interim financial information, the Group had no significant investment held during the Period.

Acquisition and Disposal of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries or associated companies by the Group during the Period.

Employees and Share Option Scheme

As at 31 December 2012, the Group employed a total of 1,128 employees (30 June 2012: 1,143). It is the Group's policy to review its employees' pay levels and performance bonus system regularly to ensure the competitiveness of the Group's remuneration policy within the relevant industry. During the Period, the employment cost (including Directors' emoluments) amounted to RMB25,508,000 (six months ended 31 December 2011: RMB25,165,000). In order to provide incentives to the staff, Directors and consultants of the Group, share options would be granted to staff, Directors and consultants under the Company's share option scheme (the "Scheme") adopted on 28 October 2009. During the Period, no option was granted, exercised, cancelled or lapsed and there were 39,000,000 share options outstanding under the Scheme.

Charge on Assets

As at 31 December 2012, the Group did not have any charges on its assets.

Future Plans for Material Investments and Expected Sources of Funding

Apart from the expansion of manufacturing facilities as described above, the Group had no future plans for material investments as at 31 December 2012.

The Group will continue to monitor the industry closely and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

Exposure to Fluctuations in Exchange Rates

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies primarily in United States dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi Yuan against foreign currency which might materially affects the Group's result of operations. The Group did not use any financial instruments to hedge its exposure to currency risk during the Period and will continue to closely monitor such risk exposures from time to time.

Capital Commitment

As at 31 December 2012, the Group had capital expenditure contracted for but not provided in the interim financial report and capital expenditure authorized but not contracted for in the interim financial report amounted to RMB5,007,000 (30 June 2012: RMB7,299,000) and RMB92,516,000 (30 June 2012: RMB92,516,000) respectively.

Contingent Liabilities

As at 31 December 2012, the Group did not have any material contingent liabilities.

Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2012 (six months ended 31 December 2011: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE

The Company has complied with most of the code provisions stipulated in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") during the Period, except for the deviation from the code provision A.2.1 of the Code as described below.

Code Provision A.2.1

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wong Fun Chung is the Chairman and the Chief Executive Officer of the Company. Such deviation from Code provision A.2.1 is deemed appropriate as it is considered to be more efficient to have one single person as the Chairman of the Company as well as to discharge the executive functions of a chief executive officer, and it provides the Group with strong and consistent leadership in the development and execution of long term business strategies. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises highly experienced individuals. There are three independent non-executive Directors on the Board. All of them possess adequate independence and therefore the Board considers the Company has achieved balance and provided sufficient protection of its interests.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the required standard for securities transactions by the Directors.

Having made specific enquiries of all the Directors, all the Directors confirmed to the Company that they have complied with the Model Code for the Period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Period, none of the Directors or the substantial shareholders of the Company, or any of their respective associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

REMUNERATION COMMITTEE

The remuneration committee of the Company, currently comprising three independent non-executive Directors, namely Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor, is primarily responsible for making recommendations to the Board on the remuneration packages of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

NOMINATION COMMITTEE

The Group established a nomination committee (the "Nomination Committee") since 2008 with written terms of reference which are in compliance with the Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy and to make recommendations to the Board on appointment or re-appointment of Directors and succession planning for the Directors. The Nomination Committee comprises three independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor. Mr. Chan Yuk Hiu, Taylor was appointed as the Chairman of the Nomination Committee.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") since 2008 with written terms of reference which are in compliance with the Code. The primary duties of the Audit Committee are, inter alia, to assist the Board in providing an independent view of the effectiveness of the Group's financial reporting system, internal control and risk management system, to review and monitor the audit process, to review the Company's financial information, and to perform other duties and responsibilities as assigned by the Board. The Audit Committee currently comprises three independent non-executive Directors, namely, Dr. Hu Guo Qing, Ms. Ji Qin Zhi and Mr. Chan Yuk Hiu, Taylor (Chairman).

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed with management the unaudited interim results of the Group, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters. They considered that the preparation of the unaudited consolidated interim financial statements of the Group for the six months ended 31 December 2012 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM FINANCIAL REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.chpag.net. The interim financial report of the Company for the six months ended 31 December 2012 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the aforementioned websites in due course.

SUSPENSION OF TRADING

Trading in the shares of the Company has been suspended since 9: 00 a.m. on 22 August 2012, and will remain suspended until further notice.

By order of the Board
China High Precision Automation Group Limited
Wong Fun Chung
Chairman

Hong Kong, 28 February 2013

As at the date of this announcement, the executive Directors are Mr. Wong Fun Chung, Mr. Zou Chong, Mr. Su Fang Zhong and Mr. Cheung Chuen, and the independent non-executive Directors are Ms. Ji Qin Zhi, Dr. Hu Guo Qing and Mr. Chan Yuk Hiu, Taylor.