

**CHINA AUTOMATION GROUP LTD:
ARE THE SHARES OF THIS COMPANY WORTH \$HK3.10, EACH ?**

Since China Automation Group Ltd () (Code: 569, Main Board, The Stock Exchange of Hongkong Ltd) donned the purple of office as a publicly listed company of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) at the end of June, this year, its share price has doubled from the Offer Price.

This may be due, of course, to too many people, chasing a very limited number of shares.

One would hope that that is the case because the alternatives are that (a) somebody, or a group of people, know something that other people do not know, and/or (b) some insider(s) is speculating, heavily, on this counter in an effort to push up its share price to what appears to be unreasonably high levels that, in the fullness of time, probably, cannot be sustained.

Time will tell what is the true story.

China Automation is a company, engaged in the sales and installation of critical control systems for the petrochemical, oil and gas industries and the railway industries of the PRC, proper, being separate from the HKSAR of the PRC.

It is a small company, no matter how one looks at it, despite it, being 8 years old.

Its historical financials could hardly be considered impressive.

The Company launched its Placing and Public Offer Prospectus on June 28, 2007, when it Offered 200 million, one-cent Shares at \$HK1.53 per Share.

On July 31, 2007, one of the Lead Managers and Joint Bookrunners, First Shanghai Capital Ltd (), exercised, in full, its Over-Allotment Option of 30 million, New Shares at \$HK1.53 per Share.

All in all, China Automation bagged about \$HK314.60 million from this cash-raising exercise.

The net proceeds from the **Initial Public Offering** (IPO) are destined to be utilised as follows, one is told:

1. About \$HK40 million for research and development;
2. About \$HK40 million for the construction of a new complex;
3. About \$HK30 million to expand the Company's sales network in the PRC, proper;
4. About \$HK25 million to expand the Company's service network in the PRC, proper;
5. About \$HK30 million to establish offices in Dubai and Canada;
6. About \$HK60 million to make acquisitions; and,
7. About \$HK89.60 million to be tipped into the General Working Capital Account.

The operations of China Automation is described at Page 70 of the Prospectus in the following terms:

‘The Group is one of the leading safety and critical control systems providers for the petrochemical, oil and gas and railway industries in the PRC. Based on the research report prepared in May 2007 by Frost & Sullivan which was commissioned by the Group at a fee of RMB160,000, the Group is the largest safety and critical control system provider in the PRC in 2006 with a market share of approximately 68% in terms of revenue. The Group is principally engaged in the provision of safety and critical control systems and related engineering and maintenance services. To a lesser extent, the Group is also engaged in the trading of petrochemical instruments and train manufacturing equipment.

‘The Group’s safety and critical control systems, including ESD, FGS, ITCC and RIS, typically comprise hardware sourced from suppliers and self-developed application software. The Group’s safety and critical control systems are sold to customers in different industries such as petrochemical, oil and gas, iron and steel, and railway. The Group’s safety and critical control systems are mainly used to minimise industrial safety risk and to protect, monitor and control critical production equipment.

‘The Group has positioned itself as a total solution provider. It mainly utilises its self developed software products and know-how to provide total system solutions for the petrochemical, oil and gas and railway industries with a principal focus on the provision of products and solutions of ESD, FGS, ITCC and RIS. This business segment is categorised as system sales.’

For ... [CLICK TO ORDER FULL ARTICLE](#)

While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.

*If readers feel that they would like to voice their opinions about that which they have read in **TARGET**, please feel free to e-mail your views to editor@targetnewspapers.com. **TARGET** does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.*