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中國自動化集團有限公司

China Automation Group Limited

(HK stock code 0569)

(Incorporated in the Cayman Islands with limited liability)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE TARGET COMPANY

THE PROPOSED ACQUISITION

The Board is pleased to announce that on 30 March 2017, the Company and the Vendor entered into the Sale and Purchase Agreement pursuant to which, the Company conditionally agreed to acquire 60% of the total issued share capital of the Target Company from the Vendor for a Consideration of an amount equal to the 2016 Actual Net Profit multiplied by twenty (20), provided that if the Consideration calculated in accordance with the aforesaid manner is less than RMB620,000,000 or more than RMB760,000,000, either the Vendor or the Company may elect not to proceed with the Completion.

The Consideration shall be settled by way of issue of the Convertible Bond in the principal amount equal to the Consideration by the Company to the Vendor at Completion. Based on the maximum Consideration payable and the initial Conversion Price of RMB1.0640 (subject to adjustments), it is estimated that a maximum number of 714,285,714 Conversion Shares may fall to be allotted and issued upon exercise of the Conversion Rights in full, which represents (i) approximately 69.60% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 41.04% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

THE TARGET GROUP

The Target Company is an investment holding company with its principal assets being its indirect investment in the 98% equity interest in Hospital Co, which is a privately-owned Class II general hospital in the PRC providing extensive medical services.

* For identification purpose only

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Proposed Acquisition exceed 25% but all are less than 100%, the Proposed Acquisition constitutes a major transaction of the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Furthermore, the Vendor is an associate of AACL by virtue of common control at the ultimate general partner level and common management and advisory arrangements. As AACL is or may be regarded as the substantial shareholder of the Company (as explained hereinbelow), the Vendor is or may also be regarded as a connected person of the Company and the Proposed Acquisition may constitute a connected transaction of the Company subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

An EGM will be held for the Independent Shareholders to consider, and if thought fit, approve the Proposed Acquisition and the transactions contemplated thereunder.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the Proposed Acquisition and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Proposed Acquisition and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Proposed Acquisition; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee in respect of the Proposed Acquisition; (iv) other information required to be disclosed under the Listing Rules; and (v) a notice of the EGM, is expected to be despatched to the Shareholders on or before 19 May 2017 as additional time is required for the preparation of the relevant information to be included in the circular.

Since the Proposed Acquisition is subject to the fulfillment of the conditions precedent set out in the Sale and Purchase Agreement, and may or may not proceed to Completion, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

INTRODUCTION

The Board is pleased to announce that on 30 March 2017, the Company and the Vendor entered into the Sale and Purchase Agreement in respect of the Proposed Acquisition, the principal terms and conditions of which are set out below.

THE PROPOSED ACQUISITION

The Sale and Purchase Agreement

Date

30 March 2017

Parties

- (1) the Company as the purchaser; and
- (2) Ascendent Healthcare (Cayman) Limited as the Vendor

Interest to be acquired

Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase the Sale Shares representing 60% of the total issued share capital of the Target Company which held 98% of the equity interest in Hospital Co through its wholly-owned subsidiaries.

Consideration

The Consideration shall be an amount equal to the 2016 Actual Net Profit multiplied by twenty (20), provided that if the Consideration calculated in accordance with the aforesaid manner is less than RMB620,000,000 or more than RMB760,000,000, either the Vendor or the Company may elect not to proceed with the Completion.

The Consideration shall be settled by way of issue of the Convertible Bond in the principal amount equal to the Consideration by the Company to the Vendor at Completion.

The Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to, among other things, the price-to-earnings ratios of companies listed on the Stock Exchange which are engaging in businesses similar to that of the Target Group.

Conditions Precedent

The Proposed Acquisition is conditional upon the satisfaction of the following:–

- (i) the passing of one or more resolutions of the Shareholders at the EGM in accordance with the requirements of the Listing Rules, the Takeovers Code and the Companies Act of the Cayman Islands:
 - (a) approving the Proposed Acquisition on the terms of the Sale and Purchase Agreement;
 - (b) approving the issue of the Convertible Bond; and
 - (c) authorising the Directors to issue the Convertible Shares.
- (ii) the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares issuable upon the conversion of the Convertible Bond (and such permission not having been revoked);
- (iii) the auditor having delivered to each of the Vendor and the Company the audited accounts of the Target Group for the year ended 31 December 2016;
- (iv) the Anti-Monopoly Bureau of the PRC Ministry of Commerce having issued (or being deemed to have issued) all necessary clearances and approvals in respect of the transaction contemplated under the Sale and Purchase Agreement (such decision being either unconditional or on terms acceptable to the Vendor and the Company) and all waiting or other time periods for the above mentioned clearances and approvals (including any extensions thereof) having expired, lapsed or terminated; and
- (v) any other regulatory or governmental approvals required for the purpose of the transaction contemplated under the Sale and Purchase Agreement having been obtained by the Vendor or the Company to the extent applicable.

If any of the above conditions is not satisfied or (where capable of waiver) waived by the Long Stop Date, then the Sale and Purchase Agreement shall terminate and no party shall have any rights or liabilities under it except for any rights or liabilities that have already accrued under the Sale and Purchase Agreement in relation to a breach of the Sale and Purchase Agreement and certain provisions under the Sale and Purchase Agreement.

Completion

Completion shall take place at 4:00 p.m. on the third Business Day following the day on which all of the conditions precedent set out above have been fulfilled or (where capable of waiver) waived (or such later time and/or date as the parties may agree).

Upon Completion, the Target Company will become a subsidiary of the Company and accordingly, the financial results of the Target Group will be consolidated into the accounts of the Group.

Additional Undertakings by the Vendor

- (1) The Vendor undertakes to the Company that if the Vendor or any of its affiliates plan to sell any direct or indirect interests in any of its investee companies that operate hospital business in the PRC (the “**Hospital Interest**”), the Vendor or its relevant affiliate (the “**Disposing Party**”) shall send a written notice to the Company stating the Disposing Party’s intention to sell the Hospital Interest (“**Disposal Notice**”). After the Company’s receipt of the Disposal Notice, the Company and the Disposing Party shall discuss and explore a transaction in which the Company will acquire the Hospital Interest. If the Company and the Disposing Party fail to enter into definitive agreements with regard to the Company’s acquisition of the Hospital Interest within 60 days after the delivery of the Disposal Notice, the Disposing Party may sell the Hospital Interest to any other third party.
- (2) The Vendor agrees and undertakes to attend to all filing, notification and other obligations of the Vendor and the Target Group pursuant to or in connection with 國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知(國稅函[2009]698號) (Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Income Derived from Equity Transfer Made by Non-Resident Enterprise) (Guo Shui Han [2009] No.698) effective as from 1 January 2008 (“**Circular 698**”), and 關於非居民企業間接轉讓財產企業所得稅若干問題的公告》(Circular on Several Issues Relating to Corporate Income Tax on Gains from Indirect Transfer of Assets by Non-resident Enterprises) issued on 3 February 2015 (“**Bulletin 7**”), (a) as they are in force at the Completion Date or (b) as they are deemed to have been in force at the Completion Date by virtue of an amendment to or re-enactment of Circular 698 and/or Bulletin 7 issued within six (6) years of the Completion Date in respect of the transaction under the Sale and Purchase Agreement.

THE SHAREHOLDERS’ AGREEMENT

At Completion, the Company and Vendor shall, and the Vendor shall procure that the Target Company shall enter into the Shareholders’ Agreement in the form as set out in the schedule to the Sale and Purchase Agreement to regulate their respective rights and obligations in relation to their investment in the Target Company. The principal terms of the Shareholders’ Agreement are as follows:

Parties

- (1) The Company;
- (2) The Vendor; and
- (3) The Target Company

(the Company and the Vendor, together the “**Target Co Shareholders**”)

Principal business of the Target Company

The business of the Target Company is the operation of a general hospital (綜合醫院) in the PRC through its subsidiaries.

Right of first offer

If any Target Co Shareholder proposes to directly or indirectly sell, give, assign, transfer, or otherwise dispose of any Target Shares to any person other than its affiliate(s), the other Target Co Shareholders shall have a right of first offer to purchase such Target Shares.

Meeting of the Target Co Shareholders

Subject to matters otherwise required by applicable laws or the Memorandum and Articles of Association of the Target Company, all matters to be approved by the Target Co Shareholders shall be approved by simple majority according to the Target Shares held by the Target Co Shareholders present (whether in person or by proxy) at such meeting of the Target Co Shareholders, save and except for the reserved matters as set out in the Shareholders’ Agreement which shall require approval of the Target Co Shareholders in aggregate holding not less than 75% of the Target Shares.

Composition and meeting of the board of the Target Company

The number of directors constituting the entire board of directors of the Target Company (the “**Target Board**”) shall be five. Provided that the Vendor holds at least 25% of the issued Target Shares, it shall have the right to nominate two directors (and a replacement director upon the removal of each such director) of the Target Company. The Company shall have the right to nominate three directors (and a replacement director upon the removal of each such director) and the chairman of the Target Company.

All meetings of the Target Board shall require a quorum of at least four directors, one of whom shall be a director nominated by the Vendor. The adoption of any resolution of the Target Board shall require the affirmative vote of at least 50% of the directors present at a duly constituted meeting of the Target Board.

Profit distribution

If the Target Board decides to distribute dividends, the dividends shall be distributed to the Target Co Shareholders in proportion to their respective shareholding percentage in the Target Company at the time of the distribution.

THE CONVERTIBLE BOND

Principal terms of the Convertible Bond

The principal terms of the Convertible Bond are as follows:–

Issuer:	The Company
Principal amount:	An amount equal to the Consideration to be denoted in RMB
Issue date:	Completion Date
Maturity date:	Nil
Interest and variable interest:	<p>If and whenever the Company shall make any cash distribution to the Shareholders (in their capacity as such), the Bondholder shall be entitled to a cash payment (the “variable interest”) from the Company in respect of the Convertible Bond held by such Bondholder on an as-converted basis.</p> <p>Save and except the variable interest (if any), the Convertible Bond will bear no interest.</p>
Conversion Price:	RMB1.0640 (subject to adjustments).
Conversion Shares:	Based on the maximum Consideration payable and the initial Conversion Price, a maximum number of 714,285,714 Conversion Shares may fall to be allotted and issued upon exercise of the Conversion Rights in full, which represents (i) approximately 69.60% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 41.04% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

Conversion Rights:

Subject to the restrictions below, the Bondholder shall have the right to convert on any Business Day in whole or in part the outstanding principal amount of the Convertible Bond at the Conversion Price, provided that such part of the principal amount of the Convertible Bond has not previously been converted or redeemed or cancelled. The principal amount of the Convertible Bond to be converted on each occasion shall not be less than RMB1,000,000 or shall be in integral multiple(s) of RMB1,000,000, unless the outstanding principal amount of the Convertible Bond is less than RMB1,000,000 and in such event the entire outstanding principal amount shall be converted.

No conversion of the Convertible Bond shall take place if and to the extent that, immediately following such conversion, the Company will be unable to meet the public float requirement under the Listing Rules. The Company may require that the Bondholder convert any portion or all the Convertible Bond and the Bondholder shall effect such conversion to the extent that (a) the public float will not be less than 26% immediately following the conversion; and (b) (i) the conversion will not result in the Bondholder and the parties acting in concert with

such Bondholder triggering any obligation under Rule 26 of the Takeovers Code to make a general offer; or (ii) the conversion is permissible under the Takeovers Code following the application by the Bondholder and granting by the executive of a whitewash waiver and the approval of the Shareholders in this regard, or (iii) the fulfillment by such Bondholder of sufficient financial resources to make a general offer pursuant to Rule 26 of the Takeovers Code.

If any conversion triggers an obligation to make a general offer under the Takeovers Code, the Controlling Shareholder shall not be obliged to provide any financial assistance for or in connection with such general offer.

Adjustment to Conversion Price: The Conversion Price shall from time to time be adjusted upon the occurrence of the following events in relation to the Company:

- (i) consolidation, sub-division or re-classification of Shares;
- (ii) capitalisation of profits or reserves of the Company;
- (iii) dividend or distribution in specie or other property (but excluding scrip dividend) by the Company;
- (iv) rights issues of the Shares or options over the Shares at a price less than 80% of the Current Market Price;
- (v) issues of Shares or securities convertible into Shares at a price less than 80% of the Current Market Price; and
- (vi) issue of Shares or securities convertible into Shares for an acquisition of assets by the Company at a price less than 80% of the Current Market Price.

Current Market Price means, in respect of Shares on a particular date, the average closing price per Share quoted on the daily quotation sheets published by the Stock Exchange for each of the 10 days immediately preceding such date when the Shares are traded on the Stock Exchange.

Notwithstanding the above, no adjustment shall be made to the Conversion Price if:

- (a) it would result in the Conversion Price being reduced so that on conversion, the Shares would fall to be issued at a discount to their nominal value, and in such case an adjustment shall be made to the effect that the Conversion Price will be reduced to the nominal value of the Shares;
- (b) the Vendor and/or any of its affiliates becomes the Shareholder holding more than 30% of the Shares; or
- (c) the event giving rise to any adjustment occurs with the mutual consent or agreement of the Company and the Vendor and the Controlling Shareholder remains to be the controlling shareholder (as defined under the Listing Rules) of the Company and the largest Shareholder.

Redemption:

The term of the Convertible Bond is perpetual. The Company has the right but not the obligation to redeem the whole or any part(s) of the Convertible Bond then outstanding from the Bondholders at any time after thirty (30) years from the date of issuance of the Convertible Bond by giving not less than ten (10) Business Days' written notice to the Bondholder at the amount equal to the then outstanding principal amount of the Convertible Bond or the principal of such part(s) of the Convertible Bond being redeemed (as the case may be).

If any of the following events (the “**Event of Default**”) occurs, the Vendor or its affiliate may by written notice (the “**Redemption Notice**”) to the Company declare that the portion of the Convertible Bond held by the Vendor and its affiliates (the “**Ascendent Bond**”) is immediately due and payable at its principal amount then outstanding without further demand, notice or other legal formality of any kind unless such Event of Default has been remedied by the Company within 14 Trading Days after the Redemption Notice having been served:–

- (a) within 18 months from the issue date of the Convertible Bond, the Shares (as a class) cease to be listed on the Main Board of the Stock Exchange or any other international stock exchange for a continuous period of 40 Trading Days due to the reasons attributable to the Company and that are under the control of the Company; provided that if such cessation is (i) caused by any matters related to the operation of or business carried on by the Target Group or (ii) consented to in writing by the Vendor, then it does not constitute an Event of Default; or
- (b) the Company materially defaults in performance or compliance with its obligations under certain conditions of the Convertible Bond the breach or default of which is incapable of remedy or, if capable of remedy, is not remedied within 14 Trading Days after notice of such breach or default is sent from Vendor or its relevant affiliate to the Company.

If the Vendor or its relevant affiliate declares that the Ascendent Bond is immediately due and payable at its principal amount then outstanding in accordance with the above, then, subject to the compliance with the Listing Rules and the approval of the Shareholders (if required), the Vendor and/or its relevant affiliate and the Company shall each use its best efforts to procure the transfer of such number of Target Shares equal to the portion of the outstanding principal amount of the Ascendent Bond to the initial principal amount of the Convertible Bond multiplied by 60% of the then issued share capital of the Target Group (the “**Transfer Shares**”) from the Company to the Vendor within five (5) Business Days after the later date of, (i) the date on which the Redemption Notice is delivered to the Company; or (ii) the date on which all the steps of the compliance with the Listing Rules have been completed and the approval of the Shareholders (if required) is obtained.

If the Shareholders do not approve such transfer of the Transfer Shares or such transfer of Transfer Shares is not completed within thirty (30) days after the delivery of the Redemption Notice for any reason whatsoever, the Company shall within twenty (20) Business Days redeem the Ascendent Bond at its outstanding principal amount in cash.

Notwithstanding anything contained herein, the above shall cease to apply and have no effect if the Vendor or any of its affiliates becomes a controlling shareholder (as defined under the Listing Rules) of the Company.

Transferability:

The Convertible Bond will be freely transferable, in whole or in part, to any person. A Convertible Bond may be transferred to any person in whole multiples of RMB1,000,000 (or such lesser amount as may represent the entire principal amount thereof).

Status:

(a) Subject to (b) below, the obligations of the Company arising under the Convertible Bond constitute general, unconditional, unsecured, unsubordinated obligations of the Company, and shall rank pari passu among themselves and with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law and the High Yield Bond Obligations (as defined below).

- (b) The obligations of the Company under the terms and conditions of the Convertible Bond shall be subordinated to its obligations (the “**High Yield Bond Obligations**”) under the indenture dated 11 December 2015 and entered into among the Company, Tri-Control Automation Company Limited and Citicorp International Limited and other parties with regard to the issuance of the 8.75% guaranteed senior notes due 2018 in the principal amount of US\$30 million and other obligations of the Company that rank pari passu with the High Yield Bond Obligations.

Voting rights: The Bondholder will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the Bondholder.

Listing: The Convertible Bond will not be listed on the Stock Exchange or any other stock exchanges. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conversion Price

The initial Conversion Price of RMB1.0640 (equivalent to approximately HK\$1.20) per Conversion Share (subject to adjustments) represents:

- (a) a discount of approximately 9.09% to the closing price of HK\$1.32 equivalent to approximately RMB1.17 per Share as quoted on the Stock Exchange on the date of signing of the Sale and Purchase Agreement; and
- (b) a discount of approximately 10.45% to the average closing price of HK\$1.34 equivalent to approximately RMB1.19 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days immediately prior to the date of signing of the Sale and Purchase Agreement.

The Conversion Price was determined after arm’s length negotiations between the Company and the Vendor, with reference to the recent performance of the Shares, the Group’s existing financial position and current market conditions.

Conversion Shares

Based on the maximum Consideration payable and the initial Conversion Price of RMB1.0640, a maximum number of 714,285,714 Conversion Shares may fall to be allotted and issued upon exercise of the Conversion Rights in full, which represents (i) approximately 69.60% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 41.04% of the

issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares, when issued and fully paid, will rank pari passu in all respects with each other and with other Shares then in issue at the time of issue of the Conversion Shares.

The Conversion Shares which may fall to be allotted and issued upon exercise of the conversion right attaching to the Convertible Bond will be subject to a specific mandate to be sought at the EGM.

CHANGES IN SHAREHOLDING STRUCTURE

Exchange right held by AACL

Reference is made to the composite document dated 5 August 2016 jointly issued by the Company and Araco in relation to, among other things, a conditional mandatory cash offer made by Somerley Capital Limited on behalf of Araco to (i) acquire all the then issued Shares (other than those already owned by the Araco, AACL and parties acting in concert with any of them (collectively the “**Concert Group**”)) (the “**Share Offer**”); and (ii) cancel all the then outstanding options of the Company (other than those already owned by the Concert Group) (together with the Share Offer, the “**Offers**”). The Offers became unconditional and was closed on 9 September 2016.

On 23 June 2016, AACL (as financier) and Araco (as borrower) entered into a facility agreement to provide financing to Araco to pay for the consideration under the Offers (the “**Facility Agreement**”). Pursuant to a consortium agreement dated 23 June 2016 (the “**Consortium Agreement**”) and the side-letter dated 14 March 2017 entered into, among others, AACL and Araco, before 15 September 2017 (or such other date as determined by AACL), AACL shall have the right (the “**Exchange Right**”) to require, among other things, Araco to transfer the Shares at the offer price under the Share Offer to it to discharge some or all of the amount then owing by Araco to AACL pursuant to the Facility Agreement and/or to purchase some or all of the Shares then held by Araco in order to achieve an allocation of the Shares between Araco and AACL as specified under the Consortium Agreement. If the Exchange Right are exercised in full, AACL will hold 248,235,132 Shares (the “**Exchange Shares**”) as a result of such exercise.

Changes in shareholding structure

As at the date of this announcement, the Company has 1,026,263,729 Shares in issue. Set out below is the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after full exercise of the Exchange Right by AACL (assuming that the number of total issued Shares has not been changed since the date of this announcement); (iii) immediately after full

conversion of the Convertible Bond (assuming that the number of total issued Shares has not been changed since the date of this announcement other than the issue of the Conversion Shares); and (iv) immediately after the events described in (ii) and (iii):

	As at the date of this announcement		(i) Immediately following full exercise of Exchange Right		(ii) Immediately following full conversion of the Convertible Bond (Note 1)		Immediately following (i) + (ii)	
	Number of Shares	approx. %	Number of Shares	approx. %	Number of Shares	approx. %	Number of Shares	approx. %
Mr. Xuan	1,000,000	0.10%	1,000,000	0.10%	1,000,000	0.06%	1,000,000	0.06%
Araco (Note 2)	763,931,296	74.44%	515,696,164	50.25%	763,931,296	43.89%	515,696,164	29.63%
AACL	-	-	248,235,132	24.19%	-	-	248,235,132	14.26%
Vendor	-	-	-	-	714,285,714	41.04%	714,285,714	41.04%
							(Note 3)	
Public Shareholders	<u>261,332,433</u>	<u>25.46%</u>	<u>261,332,433</u>	<u>25.46%</u>	<u>261,332,433</u>	<u>15.01%</u>	<u>261,332,433</u>	<u>15.01%</u>
Total	<u>1,026,263,729</u>	<u>100.00%</u>	<u>1,026,263,729</u>	<u>100.00%</u>	<u>1,740,549,443</u>	<u>100.00%</u>	<u>1,740,549,443</u>	<u>100.00%</u>

Notes:

1. This is a theoretical illustration only, assuming that the Convertible Bond has been converted in full at the initial Conversion Price, and the maximum number of Conversion Shares will be 714,285,714 Shares. However, under the terms of the Convertible Bond, Bondholders shall not convert the Convertible Bond if such conversion will result in non-compliance with the public float requirement. Should any conversion trigger an obligation of the Bondholder to make a general offer pursuant to Rule 26 of the Takeovers Code, such Bondholder should comply with the applicable requirements under the Takeovers Code.
2. Araco is indirectly wholly-owned by Mr. Xuan.
3. After the exercise of the Exchange Right and the full conversion of the Convertible Bond, the Vendor together with AACL will be interested in 962,520,846 Shares, representing approximately 55.30% of the enlarged issued share capital of the Company.
4. Any discrepancies between the total figures and the sums of direct aggregations are due to the rounding off of decimal places.

INFORMATION OF THE TARGET GROUP

Based on the information provided by the Vendor, the Target Company, a wholly-owned subsidiary of the Vendor, is a limited company incorporated under the laws of the BVI and is an investment holding company with its principal assets being its indirect investment in the 98% equity interest in Hospital Co.

According to the Vendor, (i) the Vendor acquired the Target Company (which held Hospital Co) in May 2014 at a total consideration of RMB220 million, of which RMB160 million was upfront acquisition consideration and RMB60 million was staged royalty and other service fees; (ii) since its acquisition, the Hospital Co has grown significantly in scale and profitability and the profit before tax of the Hospital Co has increased more than four times to approximately RMB84.8 million for the year ended 31 December 2016 (subject to audit); and (iii) the Vendor has made significant improvements to the business of the Hospital Co, including but not limited to facilitating the change from a non-profit-making hospital to a profit-making hospital, hiring and establishing an experienced hospital management team to drive the business development for the Hospital Co, and continuously investing in the upgrade and expansion of the equipment and facilities of the Hospital Co with accumulated capital expenditure reaching over RMB60 million to date.

The Target Company carries out a hospital business indirectly through Hospital Co. Hospital Co has commenced its operation as a general hospital (綜合醫院) since 2007 in Suzhou, PRC and is currently a privately-owned Class II general hospital providing extensive medical services. As at 31 December 2016, it had 480 beds in operation, and had a total of 693 employees which included 323 doctors and technical personnel, 276 nurses and 94 administrative staffs.

Set out below are the highlights of the financial information of Hospital Co for the two financial years ended 31 December 2015 and 2016:

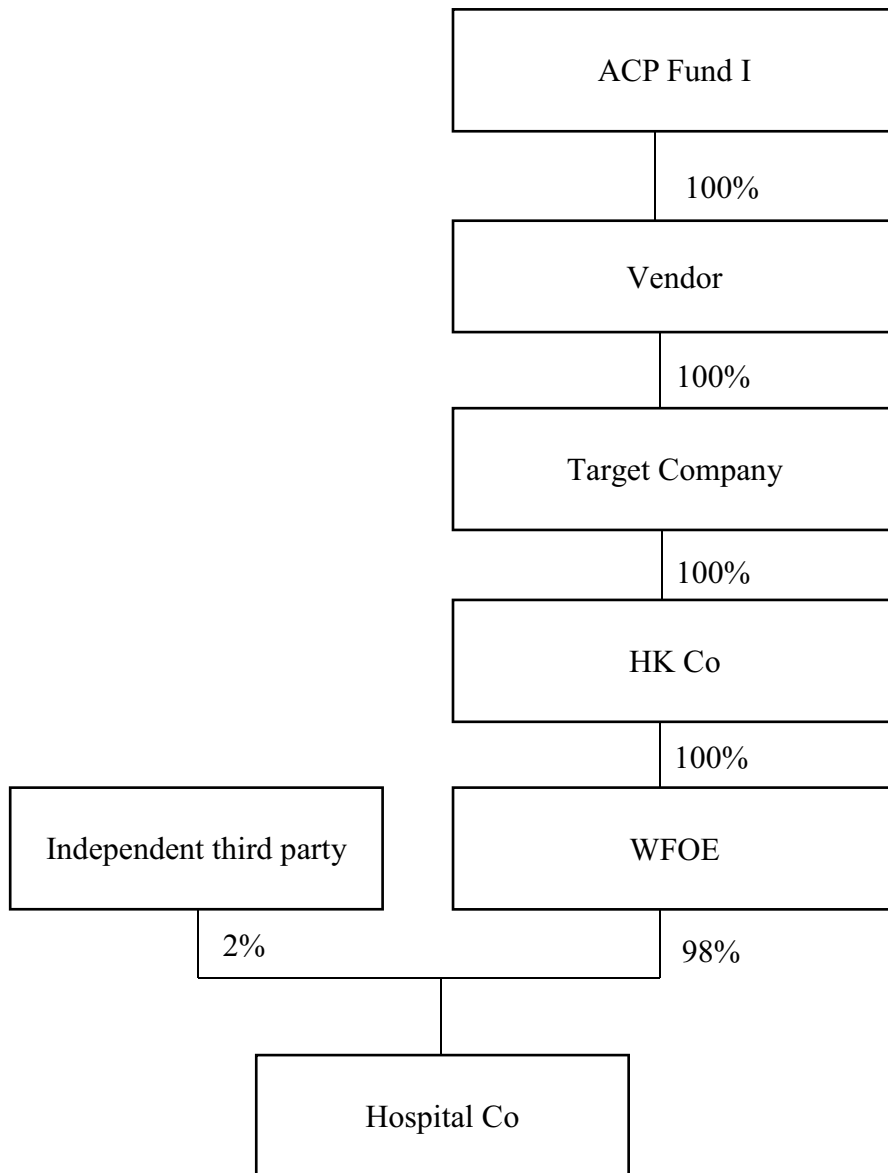
	Year ended 31 December	
	2016	2015
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	(unaudited)	(audited)
	<i>(Note 2)</i>	<i>(Note 1)</i>
Revenue	370,395	308,212
Profits before taxation	84,845	47,643
Profits for the year	63,060	34,946
Net assets	90,416	82,576

Notes:

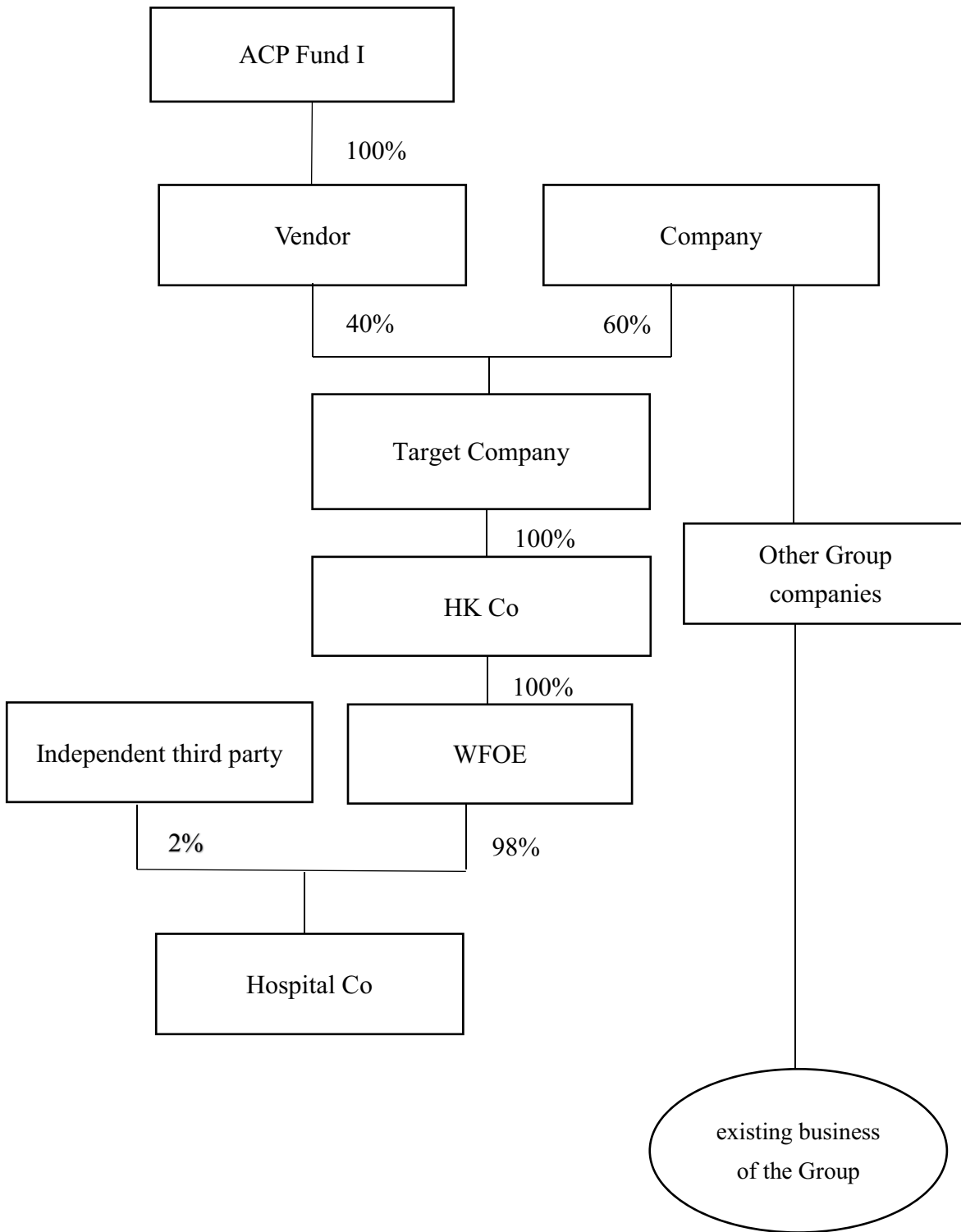
1. As extracted from audited financial statements of Hospital Co for the financial year ended 31 December 2015 which were prepared under generally accepted accounting principles of the PRC.
2. Based on the latest unaudited financial information of Hospital Co for the financial year ended 31 December 2016 available to the Company as at the date of this announcement.

Set out below are charts showing: (a) the existing corporate structure of the Target Group; and (b) the simplified corporate structure of the Target Group immediately after Completion:

(a) The existing corporate structure of the Target Group



(b) The simplified corporate structure of the Target Group immediately after Completion:



INFORMATION OF THE VENDOR

The Vendor is wholly-owned by ACP Fund I. The general partner of ACP Fund I is Ascendent Capital Partners I GP, L.P, the general partner of which is Ascendent Capital Partners I GP Limited. ACP Fund I is managed by Ascendent Capital Partners Limited and advised by Ascendent Capital Partners (Asia) Limited, a private equity investment management firm focused on Greater China-related investment opportunities, managing capital for globally renowned institutional investors including sovereign wealth funds, endowments, pensions and foundations.

AACL, the holder of the Exchange Right, is a direct wholly-owned subsidiary of ACP Fund II. The general partner of ACP Fund II is Ascendent Capital Partners II GP, L.P, the general partner of which is Ascendent Capital Partners II GP Limited. Similar to ACP Fund I, ACP Fund II is managed by Ascendent Capital Partners Limited and advised Ascendent Capital Partners (Asia) Limited.

AACL is an associate of the Vendor by virtue of common control at the ultimate general partner level of both ACP Fund I and ACP Fund II (which is exercised by members of Ascendent Capital Partners (Asia) Limited) and common management and advisory arrangements with Ascendent Capital Partners Limited and Ascendent Capital Partners (Asia) Limited.

INFORMATION OF THE GROUP

The Group is principally engaged in the provision of safety and critical control systems specialised for the petrochemical and railway industries, along with related maintenance and engineering services.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

Given the historical profitability of the Target Group and the promising prospect of healthcare services sector in PRC, the Proposed Acquisition is expected to broaden the income source and introduce financial stability to the Group which will shield the Company from the unpredictable market pressure on its existing core businesses.

The Directors (excluding the independent non-executive Directors whose views will, after receiving the advice from the independent financial adviser, be set out in the letter from the Independent Board Committee in the circular to be despatched to the Shareholders) consider that the terms and conditions of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Proposed Acquisition and the issue of the Convertible Bond) are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Proposed Acquisition exceed 25% but all are less than 100%, the Proposed Acquisition constitutes a major transaction of the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As stated in the section headed "*Changes in shareholding structure - Exchange right held by AACL*" above, upon exercise of the Exchange Right by AACL in full and assuming that the number of total issued Shares has not been changed, AACL will hold 248,235,132 Exchange Shares, representing approximately 24.19% of the enlarged issued share capital of the Company. Pursuant to the Consortium Agreement, Araco undertakes to exercise, or procure the exercise of, the voting rights attaching to the Exchange Shares which it owns or controls in accordance with the written instructions of AACL up to the latest date on which the Exchange Right shall be exercised by AACL, provided that this undertaking to exercise any voting rights shall only apply to such number of Exchange Shares which will not result in AACL triggering any obligations to make a mandatory general offer under Rule 26 of the Takeovers Code. As such, AACL is or may be regarded as being entitled to control the exercise of the Exchange Shares before the exercise of the Exchange Right, and it is or may be regarded as the substantial shareholder of the Company. Accordingly, the Vendor, being an associate of AACL by virtue of common control at the ultimate general partner level and common management and advisory arrangements, is or may also be regarded as a connected person of the Company and the Proposed Acquisition may constitute a connected transaction subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

An EGM will be held for the Independent Shareholders to consider, and if thought fit, approve the Proposed Acquisition and the transactions contemplated thereunder.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the Proposed Acquisition and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Proposed Acquisition and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Proposed Acquisition; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee in respect of the Proposed Acquisition; (iv) other information required to be disclosed

under the Listing Rules; and (v) a notice of the EGM is expected to be despatched to the Shareholders on or before 19 May 2017 as additional time is required for the preparation of the relevant information to be included in the circular.

Since the Proposed Acquisition is subject to the fulfillment of the conditions precedent set out in the Sale and Purchase Agreement, and may or may not proceed to Completion, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“2016 Actual Net Profit”	the consolidated net profit after tax of the Target Group for the financial year ended 31 December 2016 which shall exclude non-recurring or non-operational items such as dividend withholding tax and gain or loss due to foreign exchange fluctuation
“AACL”	Ascendent Automation (Cayman) Limited, the holder of the Exchange Right and a direct wholly-owned subsidiary of ACP Fund II
“ACP Fund I”	Ascendent Capital Partners I, L.P., holding 100% equity interest in the Vendor
“ACP Fund II”	Ascendent Capital Partners II, L.P.
“Araco”	Araco Investment Limited, a company indirectly wholly-owned by Mr. Xuan
“associate”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of the Convertible Bond
“Business Day”	a day (other than a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted or is in effect in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m. on weekdays) on which licensed banks are generally open for business in Hong Kong and the PRC

“BVI”	the British Virgin Islands
“Company”	China Automation Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Proposed Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
“Completion Date”	a day falling on the third (3rd) Business Day following the day on which all of the conditions precedent set out in the Sale and Purchase Agreement have been fulfilled or (where capable of waiver) waived (or such later time and/or date as the parties may agree)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the consideration for the Sale Shares payable by the Company pursuant to the Sale and Purchase Agreement
“Controlling Shareholder” or “Mr. Xuan”	Mr. Xuan Ruiguo, the chairman of the Company and an executive Director, who is interested in approximately 74.54% of the Shares as at the date of this announcement
“Conversion Price”	the initial conversion price of RMB1.0640 per Conversion Share (subject to adjustments)
“Conversion Rights”	the rights attached to the Convertible Bond to convert the principal amount thereof into the Conversion Shares
“Conversion Share (s)”	the Share(s) to be allotted and issued by the Company upon the exercise of the Conversion Rights
“Convertible Bond”	convertible bond to be issued by the Company to the Vendor pursuant to the Sale and Purchase Agreement
“Director (s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider, and if thought fit, approve the Proposed Acquisition and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK Co”	Etern Healthcare (HK) Limited, a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hospital Co”	Suzhou Yongding Hospital Company Limited* (蘇州永鼎醫院有限公司), a limited company incorporated in PRC owned as to 98% by the Target Company which is principally engaged in hospital business in Suzhou, PRC
“Independent Board Committee”	an independent committee of the Board comprising of all independent non-executive Directors to be established for the purpose of advising the Independent Shareholders in respect of the Proposed Acquisition
“Independent Shareholders”	the Shareholders other than those that are required under the Listing Rules to abstain from voting on the resolution(s) to be proposed at the EGM
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	the date which is six (6) months from the date of the Sale and Purchase Agreement, or such later date as the parties may agree in writing
“PRC”	the People’s Republic of China (excluding Hong Kong, the Macau Special Administrative Region of the PRC or Taiwan for the purposes of this announcement)
“Proposed Acquisition”	the proposed acquisition of the Sale Shares by the Company from the Vendor pursuant to the terms and conditions of the Sale and Purchase Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional agreement dated 30 March 2017 entered into between the Company and the Vendor in relation to, among other things, the Proposed Acquisition
“Sale Shares”	the shares representing 60% of the total issued share capital of the Target Company

“Share (s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholders”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Target Company”	Etern Group Limited (永鼎集團有限公司), a company incorporated under the laws of the BVI and an investment holding company with its principal assets being its indirect investment in the 98% equity interest in Hospital Co
“Target Group”	the Target Company and its subsidiaries
“Target Shares”	the issued shares of the Target Company from time to time
“Trading day”	a day (other than a Saturday or a Sunday) when the Stock Exchange is open for business of dealing in securities
“Vendor”	Ascendent Healthcare (Cayman) Limited, an exempted company incorporated in the Cayman Islands with limited liability on 12 February 2014 and is wholly-owned by ACP Fund I
“WFOE”	Suzhou Yongding Healthcare Investment Management Company Limited* (蘇州永鼎醫療投資管理有限公司), a wholly foreign owned enterprise incorporated in PRC which is wholly-owned by the Target Company through HK Co and is holding 98% equity interest in Hospital Co
“%”	percentage

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

Hong Kong, 30 March 2017

As at the date of this announcement, the Board comprises Mr. Xuan Rui Guo and Mr. Wang Chuensheng as executive Directors; and Mr. Wang Tai Wen, Mr. Zhang Xin Zhi and Mr. Ng Wing Fai as independent non-executive Directors.