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中國自動化

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)

DISCLOSEABLE TRANSACTION

DISPOSALS OF THE ENTIRE EQUITY INTEREST IN BEIJING LIBOYUAN AND BEIJING CONTROL

THE DISPOSAL AGREEMENTS

The Board is pleased to announce that on 26 June 2017, the Vendor (an indirect wholly-owned subsidiary of the Company) and the Purchaser entered into the Disposal Agreement A, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest of Beijing Liboyuan for a total consideration of RMB14,890,000.

On 26 June 2017, the Vendor and the Purchaser entered into the Disposal Agreement B, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest of Beijing Control for a total consideration of RMB64,810,000.

LISTING RULES IMPLICATIONS

As all the applicable percentage ratios for the Disposals exceed 5% but less than 25%, the Disposals constitute discloseable transactions of the Company and are therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

THE DISPOSALS

The Board is pleased to announce that on 26 June 2017, the Vendor (an indirect wholly-owned subsidiary of the Company) and the Purchaser entered into the Disposal Agreement A, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest of Beijing Liboyuan for a total consideration of RMB14,890,000.

On 26 June 2017, the Vendor and the Purchaser entered into the Disposal Agreement B, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest of Beijing Control for a total consideration of RMB64,810,000.

The principal terms of the Disposal Agreements are set out as follows:

DISPOSAL AGREEMENT A

Date

26 June 2017

Parties

- (1) the Vendor, an indirect wholly-owned subsidiary of the Company, as vendor; and
- (2) the Purchaser, as purchaser.

Assets to be disposed of

Pursuant to the Disposal Agreement A, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest of Beijing Liboyuan together with all rights and obligations thereunder. The Disposal Agreement A does not contain any restrictions which apply to the subsequent sale of the equity interest in Beijing Liboyuan.

Consideration

The total consideration for Disposal A is RMB14,890,000, which shall be satisfied in the following manner:

- (a) RMB7,593,900, being 51% of the consideration for Disposal A, shall be payable by the Purchaser to the Vendor as deposit within three Business Days upon signing of the Disposal Agreement A (“**Deposit A**”); and
- (b) the Purchaser shall complete the release of Guarantee A before 20 July 2017 and the balance of the consideration of RMB7,296,100 (“**Balance A**”) shall be payable by the Purchaser to the Vendor on the day that evidence is presented by the Purchaser to the Vendor that Guarantee A has been released.

If the Purchaser fails to complete the release of Guarantee A before 20 July 2017, the Disposal Agreement A shall be terminated immediately and the Deposit A shall be forfeited by the Vendor absolutely unless otherwise agreed by the parties.

Basis of determining the consideration

The consideration for Disposal A was determined after arm’s length negotiations between the parties with reference to the unaudited consolidated net asset value of Beijing Liboyuan as at 31 March 2017, being approximately RMB14,886,000.

The Directors consider that the terms and conditions of the Disposal Agreement A, including the consideration, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion of Disposal A is conditional upon the satisfaction of the following conditions:

- (a) Deposit A having been paid by the Purchaser;
- (b) the Purchaser shall provide Huashi Power a sum (“**Sum A**”) equivalent to the amount of RMB10,878,009.65 owing by Huashi Power to Beijing Consen (“**Loan A**”) within ten Business Days upon signing of the Disposal Agreement A; upon receipt of Sum A, Huashi Power shall forthwith apply Sum A to repay Loan A;
- (c) immediately upon signing of Disposal Agreement A, the Purchaser shall apply to the bank to release the corporate guarantee provided by Beijing Consen in favour of the bank (including but not limited to by way of replacement of Beijing Consen by the Purchaser or person designated by the Purchaser as the guarantor) in respect of the borrowings of Huashi Power up to a maximum principal amount of RMB70,000,000 (“**Guarantee A**”); and
- (d) Balance A having been paid by the Purchaser.

Completion

Upon full satisfaction of the condition precedents, the parties shall proceed with and complete the registration and filings in respect of Disposal A with the relevant PRC government authorities by 31 July 2017. Completion shall take place when the registration and filings procedures with the relevant PRC government authorities have been completed.

Immediately following completion of Disposal A, Beijing Liboyuan and its subsidiaries will cease to be subsidiaries of the Company.

Default

Any party violating the representation or warranty in Disposal Agreement A or failing to perform its obligations under Disposal Agreement A shall constitute a breach of contract. The defaulting party shall compensate the non-defaulting party for all actual losses incurred as a result of such breach.

If the Purchaser fails to pay the consideration for Disposal A (owing to the Purchaser’s fault), it shall pay to the Vendor a default amount equal to 0.03% of the consideration for Disposal A for each day of delay and indemnify the Vendor for any loss suffered.

If the Vendor fails to complete the registration and filings in respect of Disposal A with the relevant PRC government authorities within the prescribed time limit under the Disposal Agreement A (other than due to the fault of the Purchaser or policy reasons), it shall pay to the Purchaser a default amount equal to 0.03% of the consideration for Disposal A for each day of delay and indemnify the Purchaser for any loss suffered.

DISPOSAL AGREEMENT B

Date

26 June 2017

Parties

- (1) the Vendor, an indirect wholly-owned subsidiary of the Company, as vendor; and
- (2) the Purchaser, as purchaser.

Assets to be disposed of

Pursuant to the Disposal Agreement B, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire equity interest of Beijing Control together with all rights and obligations thereunder. The Disposal Agreement B does not contain any restrictions which apply to the subsequent sale of the equity interest in Beijing Control.

Consideration

The total consideration for Disposal B is RMB64,810,000, which shall be satisfied in the following manner:

- (a) RMB33,053,100, being 51% of the consideration for the Disposal B, shall be payable by the Purchaser to the Vendor as deposit within three Business Days upon signing of the Disposal Agreement B ("**Deposit B**"); and
- (b) the Purchaser shall complete the release of Guarantee B before 20 July 2017 and the balance of the consideration of RMB31,756,900 ("**Balance B**") shall be payable by the Purchaser to the Vendor on the day that evidence is presented by the Purchaser to the Vendor that Guarantee B has been released.

If the Purchaser fails to complete the release of Guarantee B before 20 July 2017, the Disposal Agreement B shall be terminated immediately and the Deposit B shall be forfeited by the Vendor absolutely unless otherwise agreed by the parties.

Basis of determining the consideration

The consideration for Disposal B was determined after arm's length negotiations between the Vendor and the Purchaser with reference to the unaudited consolidated net asset value of Beijing Control as at 31 March 2017, being approximately RMB64,803,000.

The Directors consider that the terms and conditions of the Disposal Agreement B, including the consideration, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion of Disposal B is conditional upon the satisfaction of the following conditions:

- (a) Deposit B having been paid by the Purchaser;
- (b) the Purchaser shall provide Huashi Electronic a sum ("**Sum B**") equivalent to the aggregate amount of RMB6,929,417.89 and RMB3,000,000 owing by Huashi Electronic to Beijing Consen and Beijing Hengtai respectively (collectively, "**Loan B**") within ten Business Days upon signing of Disposal Agreement B; upon receipt of Sum B, Huashi Electronic shall forthwith apply Sum B to repay Loan B;
- (c) immediately upon signing of Disposal Agreement B, the Purchaser shall apply to the bank to release the corporate guarantee provided by Beijing Consen in favour of the bank (including but not limited to by way of replacement of Beijing Consen by the Purchaser or person designated by the Purchaser as the guarantor) in respect of the borrowings of Huashi Electronic up to a maximum principal amount of RMB20,000,000 ("**Guarantee B**"); and
- (d) Balance B having been paid by the Purchaser.

Completion

Upon full satisfaction of the condition precedents, the parties shall proceed with and complete the registration and filings in respect of Disposal B with the relevant PRC government authorities by 31 July 2017. Completion shall take place when the registration and filings procedures with the relevant PRC government authorities have been completed.

Immediately following completion of Disposal B, Beijing Control and its subsidiaries will cease to be a subsidiaries of the Company.

Default

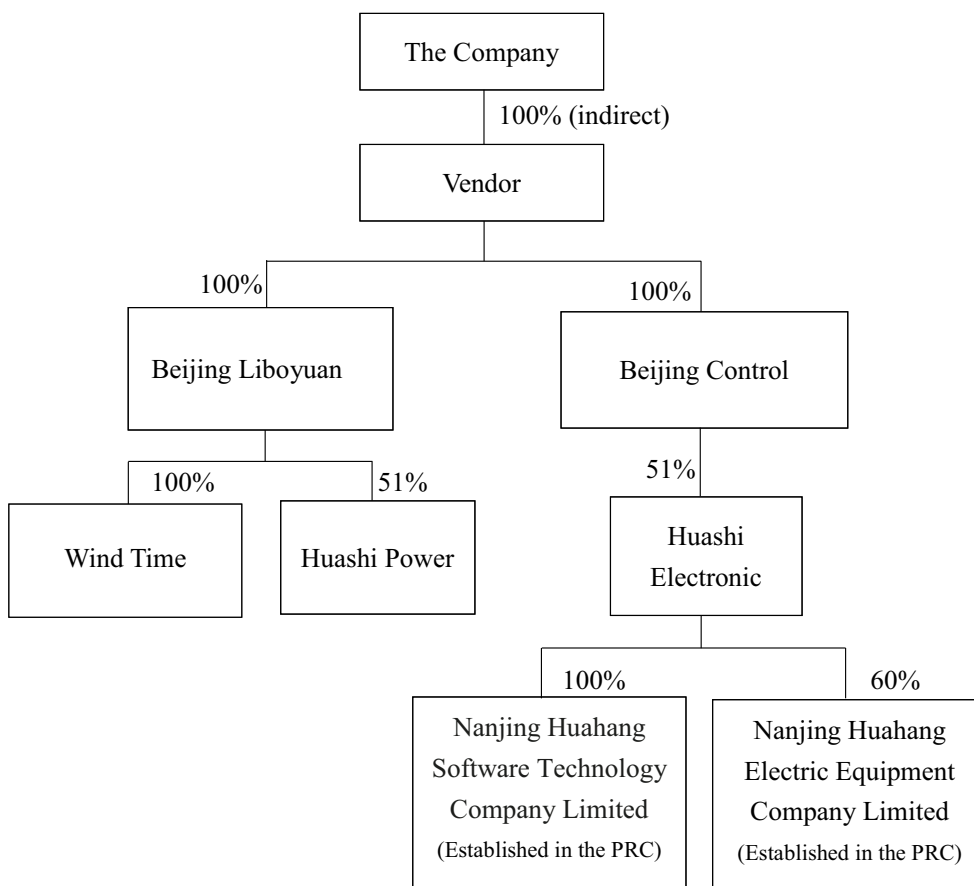
Any party violating the representation or warranty in Disposal Agreement B or failing to perform its obligations under Disposal Agreement B shall constitute a breach of contract. The defaulting party shall compensate the non-defaulting party for all actual losses incurred as a result of such breach.

If the Purchaser fails to pay the consideration for Disposal B (owing to the Purchaser's fault), it shall pay to the Vendor a default amount equal to 0.03% of the consideration for Disposal B for each day of delay and indemnify the Vendor for any loss suffered.

If the Vendor fails to complete the registration and filings in respect of Disposal B with the relevant PRC government authorities within the prescribed time limit under the Disposal Agreement B (other than due to the fault of the Purchaser or policy reasons), it shall pay to the Purchaser a default amount equal to 0.03% of the consideration for Disposal B for each day of delay and indemnify the Purchaser for any loss suffered.

GROUP STRUCTURE

The simplified corporate structure of the Company, Beijing Liboyuan and Beijing Control as at the date of this announcement is set out below:



GENERAL INFORMATION

The Company and the Group

The Company is an investment holding company and the Group is engaged in the provision of safety and critical control system specialized for petrochemical and railway industries, along with related maintenance and engineering services.

The Vendor

The Vendor is a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. The Vendor is principally engaged in design, development and sales of construction material for railway and highroad, as well as technology services.

The Purchaser

The Purchaser is a company established under the laws of the PRC with limited liability and its main investment and business focus is mainly in the domestic and international strategic industries and emerging industries, at present, the principal businesses of the Purchaser and its subsidiaries involve rail transportation, integrated pipelines corridors, health care and other various fields.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Beijing Liboyuan

Beijing Liboyuan is a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. Beijing Liboyuan is an investment holding company with its principal investment being 51% interest in Huashi Power and 100% interest in Wind Time.

Set out below is a summary of certain unaudited financial information of Beijing Liboyuan for the two years ended 31 December 2016:

	For the year ended 31 December 2015 (unaudited) (adjusted) <i>RMB'000</i> (Note)	For the year ended 31 December 2016 (unaudited) <i>RMB'000</i>
Net loss before taxation	22,845.0	5,900.8
Net loss after taxation	22,868.9	5,900.8

Note: The 2015 figures have been adjusted to exclude the profit before taxation and profit after taxation related to the disposal of Beijing Jiaoda Microunion Technology Co. Ltd. amounted to RMB57,999,139.71 and RMB43,499,354.78 respectively.

As at 31 March 2017, the unaudited consolidated net assets value of Beijing Liboyuan was approximately RMB14,886,000.

Beijing Control

Beijing Control is a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. Beijing Control was principally engaged in the development and trading of petrochemical automation control system until it ceased its business in about the second half of 2016 and its current principal activity is the holding of Huashi Electronic.

Set out below is a summary of certain unaudited financial information of Beijing Control for the two years ended 31 December 2016:

	For the year ended 31 December 2015	For the year ended 31 December 2016
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net loss before taxation	120,577.9	46,462.4
Net loss after taxation	110,434.3	47,218.5

As at 31 March 2017, the unaudited consolidated net assets value of Beijing Control was approximately RMB64,803,000.

FINANCIAL EFFECT OF THE DISPOSALS AND USE OF PROCEEDS

Subject to final audit, it is expected that the Group will realise (i) a gain of approximately RMB2.6 million in respect of Disposal A, which is calculated based on the difference between the consideration for Disposal A and the unaudited carrying value of Beijing Liboyuan as at 31 May 2017; and (ii) a gain of approximately RMB0.8 million in respect of Disposal B, which is calculated based on the difference between the consideration for Disposal B and the unaudited carrying value of Beijing Control as at 31 May 2017.

The Directors currently intend to apply the proceeds from the Disposals to pay down the existing indebtedness of the Group.

REASONS FOR AND BENEFIT OF THE DISPOSALS

The Group has undertaken a detailed strategic review of the Group for the purpose of formulating business plans and strategies for the future business development of the Group and determining what changes, if any, would be appropriate or desirable in order to optimize the business activities of the Group. The Group also rolled out an internal restructuring programme to dispose of the non-profit making business units. For the railway segment, the Group considered that the traction and auxiliary power supply systems business overly competitive and it would be difficult to improve or sustain profitability. This railway segment business accounts for an insignificant portion of the Group in terms of both assets and revenue.

The Group considers it would be more beneficial for the Group to dispose the railway segment business in order to cut losses and to focus the financial resources to the existing petrochemical business segment and also has started to review and consider from time to time investment and business opportunities in new business segment(s) that would augment or complement the Group's existing businesses.

LISTING RULES IMPLICATIONS

As all the applicable percentage ratios for the Disposals exceed 5% but less than 25%, the Disposals constitute discloseable transactions of the Company and are therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.92 of the Listing Rules, a company may not dispose of its existing business for a period of 24 months after a change in control (as defined in the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”). There was a technical change in control (as defined in the Takeovers Code) of the Company on 24 June 2016 upon the completion of the acquisition by Araco Investment Limited (“**Araco**”), a company indirectly wholly owned by Mr. Xuan Rui Guo (“**Mr. Xuan**”), the chairman and an executive director of the Company, of 457,933,541 shares of the Company. As a result, as disclosed in the announcement of the Company dated 24 June 2016, Mr. Xuan and Araco became collectively interested in 458,933,541 shares of the Company, representing approximately 44.72% of the issued share capital of the Company. Hence, the Disposals fall under the scope of Rule 14.92 of the Listing Rules. The Company applied to the Stock Exchange for and the Stock Exchange has granted a waiver from strict compliance with Rule 14.92 of the Listing Rules in respect of the Disposals.

DEFINITIONS

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

“Beijing Consen”	北京康吉森自動化設備技術有限責任公司 (Beijing Consen Automation Equipment Technology Company Limited*), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Beijing Control”	北京康吉森過程控制技術有限公司 (Beijing Consen Process Control Technology Company Limited*), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Beijing Hengtai”	北京恒泰日新軟件技術有限公司 (Beijing Hengtai Rixin Software Technology Company Limited*), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Beijing Liboyuan”	北京力博遠投資管理有限公司 (Beijing Liboyuan Investment Management Company Limited*), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Business Day(s)”	day(s) on which commercial banks are open for business in the PRC (excluding public holidays)
“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
“Director(s)”	the director(s) of the Company
“Disposal Agreement A”	the agreement dated 26 June 2017 entered into between the Vendor and the Purchaser in relation to the sale and purchase of the entire equity interest of Beijing Liboyuan
“Disposal Agreement B”	the agreement dated 26 June 2017 entered into between the Vendor and the Purchaser in relation to the sale and purchase of the entire equity interest of Beijing Control

“Disposal Agreements”	collectively, Disposal Agreement A and Disposal Agreement B
“Disposal A”	the transaction contemplated under the Disposal Agreement A
“Disposal B”	the transaction contemplated under the Disposal Agreement B
“Disposals”	collectively, Disposal A and Disposal B
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huashi Electronic”	南京華士電子科技有限公司 (Nanjing Huashi Electronic Scientific Company Limited*), a company established under the laws of the PRC with limited liability and owned as to 51% by Beijing Control
“Huashi Power”	南京華士電源設備有限公司 (Nanjing Huashi Power Equipment Company Limited*), a company established under the laws of the PRC with limited liability and owned as to 51% by Beijing Liboyuan
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
“Purchaser”	北京漢融益晟技術有限公司 (Beijing Hanrong Yisheng Technology Company Limited*), a company established under the laws of the PRC with limited liability
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	北京恒通方大新材料技術有限公司 (Beijing Hengtong Fangda New Materials and Technology Company Limited*), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company

“Wind Time” Wind Time Investment Limited (優致投資有限公司), a company incorporated under the laws of Hong Kong with limited liability

“%” per cent

* *For identification purpose only*

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

Hong Kong, 26 June 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.