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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)

INSIDE INFORMATION
NON-BINDING TERM SHEET IN RELATION TO
POSSIBLE DISPOSAL OF THE PETROCHEMICAL BUSINESS

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and Part XIVA of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong).

THE POSSIBLE DISPOSAL

The Board announces that on 18 December 2018 (after trading hours), the Company as vendor entered into the non-binding Term Sheet with the Purchaser in relation to the possible disposal of the entire issued share capital of each of the Target Companies to the Purchaser. The Target Companies and their respective subsidiaries are engaging in the Petrochemical Business. If the Possible Disposal were materialised, immediately after Completion, the Group's business will solely consist of the hospital services business through the Hospital Group.

The Possible Disposal, if materialised, is expected to constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules subject to the notification, announcement and shareholders' approval requirements thereunder. The Stock Exchange takes the view that the Possible Disposal, together with the acquisition of the Hospital Group by the Company and the disposal of the railway business segment of the Group which were completed in July 2017 and September 2017 respectively, is a series of transactions and arrangements which is an attempt to achieve the listing of the Hospital Group and a means to circumvent the new listing requirements under Chapter 8 of the Listing Rules, and that had the Possible Disposal been completed before the acquisition of the Hospital Group, the latter would have been a reverse takeover under Rule 14.06(6) of the Listing Rules. Therefore, if the Possible Disposal proceeds, the Stock Exchange will consider exercising its right to impose additional conditions thereon under Rule 2.04 of the Listing Rules. In this regard, the Company will consult with the Stock Exchange before proceeding with the Possible Disposal.

In addition, since the Purchaser is a majority-controlled company of and hence an associate of Mr. Xuan (the controlling shareholder of the Company and an executive Director) and also a 30%-controlled company of and hence an associate of AACL (a substantial shareholder of the Company), it is a connected person of the Company and the Possible Disposal, if materialised,

will also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules subject to the reporting, announcement and independent shareholders' approval requirements thereunder.

If the Possible Disposal proceeds, the Company will make further announcement(s) in compliance with the Listing Rules.

The Company wishes to emphasise that the Term Sheet is not legally binding (other than the provisions relating to exclusivity, confidentiality and governing law). The terms of the Possible Disposal are subject to further negotiations and execution of definitive agreement(s) between the parties and no such definitive agreement(s) has been entered into by the Company as at the date of this announcement. Therefore, the Possible Disposal may or may not proceed. Shareholders and investors of the Company are advised to exercise caution when dealing in the securities of the Company.

INTRODUCTION

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and Part XIVA of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong).

The Board announces that on 18 December 2018 (after trading hours), the Company as vendor entered into the non-binding Term Sheet with the Purchaser in relation to the Possible Disposal, the principal terms and conditions of which are set out as below.

THE POSSIBLE DISPOSAL

The non-binding Term Sheet

Date

18 December 2018

Parties

- (1) the Company as vendor; and
- (2) CAG Holdings Limited as the Purchaser

Interest to be acquired

The entire issued share capital of each of the Target Companies.

Consideration

The aggregate consideration for the Possible Disposal will be an amount no less than the US dollar equivalent of RMB800 million and no more than the US dollar equivalent of RMB1 billion (subject to adjustment based on the audited accounts of the Company for the year ended 31 December 2018), payable by the Purchaser in cash.

Conditions Precedent

Completion will be subject to customary and appropriate conditions to completion, including without limitation:

- (a) Any and all required internal approvals, including shareholder and board approvals, of the Company, the Target Companies and their respective subsidiaries (as the case may be) and the members of the Group for the Possible Disposal;
- (b) Any and all required consents and approvals for the change in control of the applicable members of the Group (including from any lenders to members of the Group) having been obtained;
- (c) The receipt of all necessary regulatory approvals for the transactions contemplated in the Term Sheet, including but not limited to any approvals required by the Stock Exchange;
- (d) Any required anti-monopoly or other filings having been made and any required consents or approvals in relation to the Possible Disposal having been obtained, if required, in the relevant jurisdiction of the members of the Group;
- (e) No material adverse change (to be defined and agreed in the definitive agreement(s)) having occurred and continuing;
- (f) The Company's auditors having issued an unqualified audit opinion with respect to the audited accounts of the Company for the year ended 31 December 2018, and such audited accounts having been made available to the Purchaser;
- (g) All representations and warranties of the applicable members of the Group and the applicable vendor(s) being true and correct in all material respects as at Completion; and
- (h) Key management members (to be identified in the definitive agreement(s)) having entered into retention and non-competition and non-solicitation agreements in a form reasonably satisfactory to the Company and the Purchaser.

Exclusivity

During the 90-day period commencing on the date of the Term Sheet, the Company will not, and it will ensure that its direct and indirect subsidiaries will not, directly or indirectly solicit, initiate or encourage submission of any proposal or offer from any third party relating to an investment in, acquisition of, leveraged recapitalisation or other significant transaction relating to, the Company or any of its direct or indirect subsidiaries. The aforesaid exclusivity period may be extended for a further period to be mutually agreed by the parties in writing.

GENERAL INFORMATION

The Group is engaged in (i) the provision of safety and critical control system and control valves specialised for petrochemical industries, along with related maintenance and engineering services (collectively the “**Petrochemical Business**”); and (ii) hospital services business in Suzhou, the PRC.

Each of the Target Companies is a wholly-owned subsidiary of the Company and is principally engaged in the Petrochemical Business through its subsidiaries. If the Possible Disposal were materialised, immediately after Completion, the Group’s business will solely consist of the hospital services business through the Hospital Group.

The Purchaser is a company incorporated under the laws of the BVI and an investment holding company. As at the date of this announcement, it is held as to 51% by Beijing Consen and 49% by AACL.

POTENTIAL LISTING RULES IMPLICATIONS

The Possible Disposal, if materialised, is expected to constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules subject to the notification, announcement and shareholders’ approval requirements thereunder. The Stock Exchange takes the view that the Possible Disposal, together with the acquisition of the Hospital Group by the Company and the disposal of the railway business segment of the Group which were completed in July 2017 and September 2017 respectively, is a series of transactions and arrangements which is an attempt to achieve the listing of the Hospital Group and a means to circumvent the new listing requirements under Chapter 8 of the Listing Rules, and that had the Possible Disposal been completed before the acquisition of the Hospital Group, the latter would have been a reverse takeover under Rule 14.06(6) of the Listing Rules. Therefore, if the Possible Disposal proceeds, the Stock Exchange will consider exercising its right to impose additional conditions thereon under Rule 2.04 of the Listing Rules. In this regard, the Company will consult with the Stock Exchange before proceeding with the Possible Disposal.

In addition, since the Purchaser is a majority-controlled company of and hence an associate of Mr. Xuan (the controlling shareholder of the Company and an executive Director) and also a 30%-controlled company of and hence an associate of AACL (a substantial shareholder of the Company),

it is a connected person of the Company and the Possible Disposal, if materialised, will also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules subject to the reporting, announcement and independent shareholders' approval requirements thereunder.

If the Possible Disposal proceeds, the Company will make further announcement(s) in compliance with the Listing Rules.

The Company wishes to emphasise that the Term Sheet is not legally binding (other than the provisions relating to exclusivity, confidentiality and governing law). The terms of the Possible Disposal are subject to further negotiations and execution of definitive agreement(s) between the parties and no such definitive agreement(s) has been entered into by the Company as at the date of this announcement. Therefore, the Possible Disposal may or may not proceed. Shareholders and investors of the Company 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:

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| “30%-controlled company” | has the meaning ascribed thereto under the Listing Rules |
| “AACL” | Ascendent Automation (Cayman) Limited, a company incorporated in the Cayman Islands with limited liability, which holds 248,235,132 Shares (representing approximately 24.19% of the total issued Shares) as at the date of this announcement |
| “Beijing Consen” | Beijing Consen Holding Inc., a company incorporated in the BVI which is wholly-owned by Mr. Xuan |
| “Board” | the board of Directors |
| “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 Possible Disposal |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules |
| “controlling shareholder” | has the meaning ascribed thereto under the Listing Rules |

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| “Director(s)” | the director(s) of the Company |
| “Etern” | Etern Group Limited (永鼎集團有限公司), a company incorporated under the laws of the BVI which is held as to 60% by the Company and 40% by AACL as at the date of this announcement |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hospital Group” | Etern and its subsidiaries |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “majority-controlled company” | has the meaning ascribed thereto under the Listing Rules |
| “Mr. Xuan” | Mr. Xuan Rui Guo, the controlling shareholder of the Company and an executive Director |
| “Petrochemical Business” | has the meaning ascribed thereto under the section headed “GENERAL INFORMATION” in this announcement |
| “Possible Disposal” | the possible disposal of in the entire issued share capital of each of the Target Companies by the Company to the Purchaser |
| “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) |
| “Purchaser” | CAG Holdings Limited, a company incorporated under the laws of the BVI |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the issued share capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “substantial shareholder” | has the meaning ascribed thereto under the Listing Rules |

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| “Target Companies” | Tricon International Group Inc. and Trisen International Limited, both being companies incorporated under the laws of the BVI and the wholly-owned subsidiaries of the Company, which are engaged in the Petrochemical Business through their respective subsidiaries |
| “Term Sheet” | the non-legally binding term sheet dated 18 December 2018 entered into between the Company as vendor and the Purchaser in relation to the Possible Disposal |
| “%” | percentage |

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

Hong Kong, 18 December 2018

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.