
**INCORPORATION OF JOINT VENTURE COMPANY IN CHANGDE CITY,
HUNAN PROVINCE, THE PRC**

China Auto Electronics Group Limited (the “**Company**” together with its subsidiaries, the “**Group**”) is pleased to announce that its wholly-owned subsidiary, Henan Tianhai Electric Co., Ltd (“**Henan Tianhai**”), had in August 2016 entered into a joint venture agreement (“**JV Agreement**”) with 常德军制汽车线束有限公司 (the “**JV Partner**”), pursuant to which the parties have incorporated a joint venture company, 湖南天海电器有限公司 (“**JV Co**”), in Changde city, Hunan province, of the People’s Republic of China (“**PRC**”).

The registered capital of JV Co is RMB 50 million, of which 60% shall be contributed by Henan Tianhai, and the balance 40% shall be contributed by the JV Partner. The legal representative of JV Co is Mr. Zhang Jingtang, the Executive Chairman of the Group. The registered business activities of JV Co comprise the manufacturing and sales of automotive components, automotive electronic products and casting moulds; technology consultancy services; and the import of products and technology.

The joint venture has a 30-year tenure. Under the terms of the JV Agreement, the JV Partner is responsible for procuring the construction of factory premises (“**Factory**”) with an aggregate gross floor area of approximately 20,000 square meters. The Factory is intended to be leased to JV Co at market rental rates, subject to an agreed monthly cap. Further, the JV Partner is also responsible for *inter alia* assisting JV Co with expansion of product lines and entry into new markets by tapping on its own networks, as well as providing support to obtain financing for JV Co’s business expansion. Henan Tianhai is responsible for providing management and operational expertise, leveraging upon the Group’s existing expertise, capabilities and Research & Development (R&D) resources. The Factory is presently expected to commence operations in the first quarter of 2017.

The above transaction is funded through internal resources and is not expected to have any material impact to the Group’s net tangible assets and earnings per share of the Group for the current financial year ending 31 December 2016.

None of the directors or substantial shareholders of the Company has any interest, direct or indirect, in the above transaction (other than through their respective directorships or shareholding interests, as the case may be, in the Company).

BY ORDER OF THE BOARD

Zhang Jingtang
Executive Chairman

24 August 2016