

CHINA AUTO ELECTRONICS GROUP LIMITED
(Incorporated in Bermuda)

RESPONSE TO SGX'S QUERIES ON THE ACQUISITION OF SUBSIDIARY

In response to queries from Singapore Exchange Securities Trading Limited (the "SGX-ST") in their email on 12th August 2016, the Board of Directors of the Company wishes to provide the information as set out below:

Queries

1. **Rule 1010(3)** relating to the factors taken into account in arriving at the aggregate value of the consideration, and the terms of payment.

Company's Response

The Board had taken into account the following factors in arriving at the aggregate value of the consideration.

The Board has considered the advantage of acquiring the company which owned the land use rights of 324 *Mu* of land instead of acquiring the land, if the group were to acquire the land use rights directly, it would lose the incentives granted on land use rights of the said land, whereas by acquiring the company, the group would still enjoy the incentive on the said land.

As announced on 10th August 2016, the purchase was funded through internal resource and 90% of the payment to be made on signing the Sales and Purchase Agreement, and the balance 10% to be paid once the relevant authorities had completed the registration of the transfer.

Queries

2. **Rule 1010(5)** relating to the value (book value, net tangible asset value and the latest available open market value) of the assets being acquired or disposed of, and in respect of the latest available valuation, the value placed on the assets, the party who commissioned the valuation and the basis and date of such valuation.

Company's Response

The Board had not commissioned any valuation on the 324 *Mu* of land. The Board is of the opinion that the HEBI Local Government's offer of the land use rights at RMB 30,000 per *Mu* is reasonable compared with the published government's land use rights rate of RMB 140,000 per *Mu*.

Queries

3. Practice Note 10.1 provides that substantive factors should be disclosed to justify the aggregate value of the consideration

Company's Response

The Board is of the opinion that the acquisition is in the ordinary course of the business. To continue enjoying the incentive granted for the land use rights, it was necessary to acquire the company which owned the land use rights of the said asset (324 *Mu* of land).

By Order of the Board
Zhang Jing Tang
Executive Chairman

15 August 2016