

ACQUISITION OF MINORITY INTEREST IN HEBI TIANZHONG CONNECTORS COMPANY LIMITED (THE “ACQUISITION”)

The Board of Directors of China Auto Electronics Group Ltd (the “**Company**”), and together with its subsidiaries (the “**Group**”) wishes to announce that its wholly owned subsidiary company, Henan Tianhai Electric Co Ltd (“Henan Tianhai”), had on the 16th March 2014 entered into a Sale & Purchase Agreement with Yueqing Sanzhong Connector Co Ltd (“Yueqing”) to acquire the remaining 20% equity stake owned by Yueqing in Hebi Tianzhong Connector Co Ltd (“Hebi Tianzhong”), a joint venture company of which 80% and 20% are owned by Henan Tianhai and Yueqing respectively. Upon completion of the acquisition, Hebi Tianzhong will become a wholly owned subsidiary of Henan Tianhai. The acquisition was completed on 21st March 2014.

Rationale for the acquisition

Hebi Tianzhong was incorporated on 16th July 2006 with a registered capital of RMB5 million, to produce and sell low-end connector products to the Group (to complement its range of connector products) and third party customers. However, differences arose between representatives from Henan Tianhai and Yueqing in the company had led to inefficiencies and slow response to meet market demands, and had since accumulated losses of RMB1.1 million.

The Group believes that Hebi Tianzhong products will complement well its existing product range, and the company would be more efficient and perform better if it has full control, hence its decision to acquire the remaining 20% stake in Hebi Tianzhong.

Purchase consideration

The net tangible assets of Hebi Tianzhong as at 28 February 2014 was approximately RMB3.9 million, and the purchase consideration of RMB1.7 million was arrived at a willing-buyer-willing-seller basis, which will be paid in cash.

Financial Effects

The acquisition is not expected to have any material financial impact on the Group’s net tangible assets and earnings per share for the current financial year ending 31 December 2014.

Interests of Directors and Substantial Shareholders

Save for their shareholdings in the Company, none of the directors and substantial shareholders of the Company have any interest, direct or indirect, in connection with the above transaction.

By Order of the Board

Cheong How Onn
Company Secretary
22 March 2014