

CIRCULAR DATED 19 OCTOBER 2015

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the contents herein or as to any action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser immediately.

If you have sold or transferred all your shares in the capital of China Auto Electronics Group Limited (the “**Company**”), please forward this Circular with the Notice of Special General Meeting and the attached Proxy Forms immediately to the purchaser or transferee or to the bank, stockbroker or agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

This Circular does not constitute, and is not intended to be, an offer or a public offering or a notice, circular or advertisement calling or drawing attention to an offer or an offering to the public to subscribe for and/or purchase any Convertible Bonds (as defined herein) or a statement intended to induce any person to participate in the Bond Issue (as defined herein).

The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) assumes no responsibility for the accuracy or correctness of any of the statements made, reports contained or opinions expressed in this Circular. Approval in-principle granted by the SGX-ST to the Company is not to be taken as an indication of the merits of the Convertible Bonds, the Bonds Issue, the Conversion Shares (as defined herein), the Company, its subsidiaries and their securities.



THB

CHINA AUTO ELECTRONICS GROUP LIMITED

(Incorporated in Bermuda with limited liability on 8 October 2003)
(Company Registration Number 34300)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO

**THE PROPOSED ISSUE BY THE COMPANY TO THE INVESTORS (AS DEFINED HEREIN)
OF S\$60 MILLION IN AGGREGATE PRINCIPAL AMOUNT OF CONVERTIBLE BONDS DUE
2018 CONVERTIBLE INTO FULLY PAID-UP NEW ORDINARY SHARES OF THE COMPANY**

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form	:	1 November 2015 at 10:00 a.m.
Date and time of Special General Meeting	:	3 November 2015 at 10:00 a.m.
Place of Special General Meeting	:	Rasa Suites 1 & 2, Level 6, Shangri-La's Rasa Sentosa Resort, 101 Siloso Road, Sentosa, Singapore 098970

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DEFINITIONS

For the purposes of this Circular, the following definitions have, where appropriate, been used:

“Allocation”	:	Has the meaning ascribed to it in Section 2.9 of this Circular
“Annual Report 2014” or “AR2014”	:	The annual report of the Company for FY2014
“Arranger”	:	Stirling Coleman Capital Limited
“Board”	:	The board of Directors for the time being
“Bonds Issue”	:	The proposed issue of Convertible Bonds pursuant to the Purchase Agreement
“Bondholder”	:	The person in whose name a Convertible Bond is registered
“Brain International”	:	Brain International Investment Ltd (BVI company number: 1874981)
“Business Day”	:	A day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks are open for business in Singapore
“BVI”	:	British Virgin Islands
“CDP”	:	The Central Depository (Pte) Limited
“CFO”	:	The Chief Financial Officer of the Company, namely Mr. Teo Chee Shi, as at the Latest Practicable Date
“Closing”	:	means the completion of the subscription and purchase of the Convertible Bonds in the manner contemplated under the Purchase Agreement
“Closing Date”	:	5 p.m. (Singapore time) on the tenth Business Day after all the conditions precedent set forth in Section 8.1 of the Purchase Agreement are satisfied or waived in writing, or such other date and at such location as shall be agreed between the Company and the Investors
“Circular”	:	This circular to Shareholders dated 19 October 2015
“Code”	:	The Singapore Code on Take-overs and Mergers, as amended, modified or supplemented from time to time
“Companies Act”	:	The Companies Act (Chapter 50) of Singapore, as amended, modified or supplemented from time to time
“Company”	:	China Auto Electronics Group Limited
“Conditions”	:	The terms and conditions of the Convertible Bonds, substantially in the form as set out in Schedule 2 of the Purchase Agreement
“controlling shareholder”	:	Has the meaning ascribed to it in the Listing Manual
“Conversion Price”	:	The price at which Conversion Shares will be issued upon conversion which is initially S\$0.090, but will be subject to adjustment in the manner provided in the Conditions

“Conversion Right”	:	The right of a Bondholder to convert Convertible Bonds into Shares pursuant to the Conditions
“Conversion Shares”	:	The new Shares to be allotted and issued by the Company following the conversion of the Convertible Bonds from time to time in accordance with the Conditions
“Convertible Bonds”	:	S\$60 million in aggregate principal amount of unsecured convertible bonds due 2018 to be issued by the Company pursuant to the Purchase Agreement and the Conditions
“Directors”	:	The directors of the Company for the time being
“Early Redemption Amount”	:	(In relation to a Convertible Bond) is the aggregate of (i) 100% of its principal amount and (ii) an additional amount (rounded down to the nearest dollar) (the “Redemption Premium”) which will generate for the holder of such Convertible Bond a return of two per cent. (2%) per annum (calculated on the basis of a 360-day year and actual number of days elapsed), assuming that such holder has acquired the Convertible Bond at its initial principal amount on the Issue Date and taking into account all interest paid under such Convertible Bond. For the avoidance of doubt, in the event of a transfer of the Convertible Bond concerned, interest paid to the former holder(s) of such Convertible Bond shall be taken into account in computing the Redemption Premium payable, notwithstanding that such interest has not been paid to the current holder of the Convertible Bond
“EPS”	:	Earnings per Share
“FY”	:	Financial year ended or ending 31 December, as the case may be
“Group”	:	The Company and its subsidiaries
“Investors”	:	Oriental Success and Brain International and “Investor” means any of them
“Issue Date”	:	The date of issue of the Convertible Bonds, to be announced by the Company upon issue of the Convertible Bonds
“Issue Price”	:	100% of the principal amount of the Convertible Bonds
“Latest Practicable Date”	:	12 October 2015, being the latest practicable date prior to the printing of this Circular
“Long-Stop Date”	:	means 31 December 2015 or such other date as may be agreed between the Parties
“Listing Manual”	:	The Listing Manual of the SGX-ST, as amended, modified or supplemented from time to time
“Majority Bondholders”	:	The Bondholders who hold at least 75% in principal amount of the Convertible Bonds outstanding at any time
“Maturity Date”	:	The date falling three (3) years from the Issue Date
“MTP Requirement”	:	Has the meaning ascribed to it in Section 2.3 of this Circular
“Net Proceeds”	:	Net proceeds from the Bonds Issue of approximately S\$59,300,000, further elaborated upon in Section 2.8 of this Circular

“Net Proceeds Schedule”	:	Has the meaning ascribed to it in Section 2.9 of this Circular
“Notice of SGM”	:	The notice of SGM set out on page N-1 of this Circular
“NTA”	:	Net tangible assets
“Oriental Success”	:	Oriental Success International Investment Ltd (BVI company number: 1874859)
“Parties”	:	The Company and the Investors and “Party” means any of them
“PER”	:	Has the meaning ascribed to it in Section 2.3 of this Circular
“PRC”	:	People’s Republic of China
“Purchase Agreement”	:	The purchase agreement dated 14 August 2015 between the Company and the Investors pursuant to which the Company agrees to issue and sell to the Investors, and the Investors agree to subscribe for and purchase from the Company, the Convertible Bonds on the terms and conditions set out therein
“Relevant Period”	:	Has the meaning ascribed to it in Section 2.5 of this Circular
“Securities Accounts”	:	The securities accounts maintained by a Depositor with CDP but not including securities sub-accounts maintained with a Depository Agent
“SFA”	:	Securities and Futures Act (Chapter 289) of Singapore, as amended, modified or supplemented from time to time
“SGM”	:	The special general meeting of the Company to be held on 3 November 2015 at 10:00 a.m.
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Shanghai Crystal Bridge”	:	Shanghai Crystal Bridge Investment Management L.P. (上海晶桥投资管理合伙企业)
“Shanghai Yi De”	:	Shanghai Yi De Asset Management Co., Ltd. (上海壹德资产管理有限公司)
“Shanghai Zhen Tong”	:	Shanghai Zhen Tong Venture Investment Co., Ltd. (上海正同创业投资有限公司)
“Share”	:	An ordinary share in the share capital of the Company and “Shares” shall be construed accordingly
“Share Registrar”	:	B.A.C.S. Private Limited
“Shareholders”	:	The registered holders of Shares, except that where the registered holder is CDP, the term “Shareholders” shall, in relation to those Shares, mean the Depositors who have shares entered against their names in the Depository Register
“Shine Sound”	:	Shine Sound Investments Ltd, a controlling shareholder of the Company as at the Latest Practicable Date
“Subsidiaries”	:	The subsidiaries of a company (as defined in Section 5 of the Companies Act) and “subsidiary” shall be construed accordingly

“Substantial Shareholder”	:	A person who has an interest in voting shares in the Company and the total votes attached to which is not less than five per cent. (5%) of the total votes attached to all the voting shares in the Company
“Transition Period”	:	Has the meaning ascribed to it in Section 2.3 of this Circular
“Watch-list”	:	Has the meaning ascribed to it in Section 2.3 of this Circular
“Zoro Express”	:	Zoro Express International Ltd, a controlling shareholder of the Company as at the Latest Practicable Date

Currencies and others

“RMB”	:	Renminbi, being the lawful currency of the PRC
“S\$” and “cents”	:	Singapore dollars and cents respectively, being the lawful currency of the Republic of Singapore
“sq m”	:	Square metres, a unit of measurement for area
“%” or “per cent.”	:	Per centum or percentage

Exchange Rate

Unless specifically provided otherwise, the following exchange rate is used throughout this Circular:

RMB 1.00	:	S\$0.2201
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The terms **“Depositor”**, **“Depository Agent”** and **“Depository Register”** shall have the meanings ascribed to them respectively in the Companies Act. The term **“Direct Account Holder”** shall have the meaning ascribed to the term “account holder” in Section 130A of the Companies Act. The term **“treasury shares”** shall have the meaning ascribed to it in Section 4 of the Companies Act.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders.

References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act or the Listing Manual or any modification thereof and used in this Circular shall, where applicable, have the meaning assigned to it under the Companies Act or the Listing Manual or such modification thereof, as the case may be.

Any reference in this Circular to **“Rule”** or **“Chapter”** is a reference to the relevant rule or chapter in the Listing Manual, unless otherwise stated.

Any reference to a time of day in this Circular shall be a reference to Singapore time unless otherwise stated.

Any discrepancies in the tables included in this Circular between the listed amounts and totals thereof are due to rounding. Accordingly, figures shown as totals may not be an aggregation of the figures that precede them.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Circular, which are not statements of historical fact, constitute “forward-looking statements”. Some of these statements can be identified by forward-looking terms such as “expect”, “believe”, “plan”, “intend”, “estimate”, “anticipate”, “may”, “will”, “would”, “could” or similar words. However these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Group’s expected financial position, business strategy, plans and prospects are forward-looking statements and accordingly involve known and unknown risks, uncertainties and other factors that may cause the Group’s actual results, performance and achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Given the risks and uncertainties which may cause the Group’s actual future results, performance or achievements to be materially different from those expected, expressed or implied by forward-looking statements in this Circular, undue reliance must not be placed on those statements. The Company does not represent or warrant that the Group’s actual future results, performance or achievements will be as discussed in those statements. Further, the Company disclaims any responsibility, and undertakes no obligation to update or revise any forward-looking statements contained in this Circular to reflect any change in the Group’s expectations with respect to such statements after the date of this Circular or to reflect any change in events, conditions or circumstances on which the Company based any such statements subject to compliance with all applicable laws and regulations and/or the rules of the SGX-ST and/or any regulatory or supervisory body or agency.

CHINA AUTO ELECTRONICS GROUP LIMITED

(Incorporated in Bermuda with limited liability on 8 October 2003)
(Company Registration Number 34300)

LETTER TO SHAREHOLDERS

Directors:

Mr. Zhang Jingtang (Executive Chairman)
Mr. Wang Laisheng (Executive Director)
Mr. Shen Zhifu (Non-Executive Director)
Mr. Yang Yong Jun (Non-Executive Director)
Mr. Sim Hong Boon (Lead Independent Director)
Mr. Zhang Shulin (Independent Director)

Registered Office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Dated: 19 October 2015

To: The Shareholders of China Auto Electronics Group Limited

Dear Sir/ Madam,

THE PROPOSED ISSUE OF S\$60 MILLION IN AGGREGATE PRINCIPAL AMOUNT OF CONVERTIBLE BONDS DUE 2018 TO THE INVESTORS

1. INTRODUCTION

- 1.1 The Bonds Issue was announced by the Company on 14 August 2015 via SGXNET. The Directors propose to convene the SGM to seek Shareholders' approval for the proposed Bonds Issue.
- 1.2 The purpose of this Circular is to explain the reasons for, and to provide Shareholders with information relating to, the aforesaid transaction, and to seek Shareholders' approval in relation thereto at the SGM to be held on 3 November 2015 at 10:00 a.m. at Rasa Suites 1 & 2, Level 6, Shangri-La's Rasa Sentosa Resort, 101 Siloso Road, Sentosa, Singapore 098970.
- 1.3 This Circular has been prepared solely for the purpose set out herein and may not be relied upon by any persons (other than the Shareholders) or for any other purpose.
- 1.4 The SGX-ST assumes no responsibility for the contents of the Circular, including the accuracy or correctness of any of the statements or opinions made or reports contained in this Circular.

2. THE BONDS ISSUE

2.1 Background Information

On 14 August 2015, the Company announced that it proposes to raise S\$60 million via an issue of Convertible Bonds due 2018 to be subscribed by the Investors as follows:

<u>Name of Investor</u>	<u>Principal amount of Bonds subscribed for by such Investor</u>
Brain International	S\$32 million
Oriental Success	S\$28 million

The Convertible Bonds will not be listed and/or quoted on the SGX-ST.

The Conversion Shares arising from the conversion of the Convertible Bonds are intended to be listed and quoted on the SGX-ST and an application has been made to the SGX-ST for the same.

The number of Conversion Shares to be issued on conversion of a Convertible Bond will be determined by dividing the principal amount of the Convertible Bonds to be converted by the relevant Conversion Price.

Based on the Conversion Price of S\$0.090 and assuming no adjustments to the Conversion Price, the maximum number of Conversion Shares to be allotted and issued by the Company, pursuant to the full conversion of the Convertible Bonds, is 666,666,667, representing approximately 97.8% of the issued share capital of the Company as at the Latest Practicable Date; and approximately 49.4% of the issued share capital of the Company on a fully diluted basis.

Stirling Coleman Capital Limited is the Arranger for the Bonds Issue.

2.2 Rationale for the Bonds Issue

The Bonds Issue has been proposed after taking into account the following:

- (a) The Group's principal business is in manufacturing, which is characterised by high capital expenditure and working capital requirements. In particular, the Group, as a manufacturer, is subject to a long cash conversion cycle, and the time span between the delivery of manufactured products and the receipt of cash collected from the sales of such products can be significant.
- (b) Some of the Group's manufacturing facilities are presently operating near their peak capacity and expanded premises are required as the Company focuses on growing its order book with orders from leading international automobile makers. There are, however, limited surplus funds which can be deployed towards the expansion of Group's business.
- (c) Since listing in 2007, the Company has yet to raise funds from the capital markets, nor undertake any debt financing. The relatively low trading prices of the Shares, coupled with other factors such as the global economic situation and the financial crisis, have limited the ability of the Company to undertake fund raising from the debt and/or equity capital markets on favourable or acceptable terms.
- (d) The Group has been relying mainly on bank borrowings to meet its operational requirements, particularly in the PRC where the most of its operations are situated. There are significant risks and financing costs associated with bank financing in the PRC. PRC banks typically require lenders to enter into cross or mutual guarantees with other corporations to secure bank borrowings. While the Group had entered into such mutual guarantee arrangements to secure bank loans to improve its liquidity situation, there are high risks involved – the Group is required to bear the risk of indebtedness of the other corporation under such arrangements.
- (e) Having considered the above, the Company believes that the Bonds Issue presents itself as the most suitable fund raising option for the Group at this juncture. The Company intends to apply a significant portion of the proceeds from the Bonds Issue to reduce its bank borrowings, thereby reducing financing costs and associated risks. The balance is intended to be applied mainly towards business expansion efforts, as described further in Section 2.8 of this Circular entitled "Use of Proceeds".

2.3 MTP Requirement

A minimum trading price of S\$0.20 as a continuing listing requirement for Mainboard-listed issuers (the "**MTP Requirement**") was implemented with effect from March 2015. A transition period of 12 months from the date of implementation (the "**Transition Period**") is given to affected issuers to undertake corporate actions to meet the MTP Requirement. Affected issuers that are unable to meet the MTP Requirement after the Transition Period will be placed on the SGX-ST watch-list (the "**Watch-list**"). Issuers placed on the Watch-list which are unable to comply with the MTP Requirement will be delisted after a further 36-month cure period which ends in February 2019.

The Company's views on the MTP Requirement are as follows:

- (a) Based on the last traded Share price of \$0.055 as at the Latest Practicable Date, the Company is trading at a historical price/earnings ratio ("**PER**") of only 1.9 times (based on FY2014 earnings) and PER of 3.7 times on a fully diluted basis, which the Company believes is below that of comparable companies listed on the SGX-ST and other international stock exchanges. The Company's financial performance has improved significantly over the past three (3) years, with profit attributable to shareholders for the half year ended 30 June 2015 improving by approximately 11.8% over the corresponding period in FY2014.
- (b) Taking into account its improved financial performance (over the past three (3) years) and its proposed expansion plans, as described in Section 2.8 of this Circular entitled "Use of Proceeds", the Company believes that recent Share prices are not reflective of the Company's value, and is hopeful that its Share price performance will improve as it implements its proposed expansion plans.

The Company intends to monitor further developments (including its Share prices) and towards the end of December 2015, if the Company is of the view that it is unlikely to be able to meet the MTP Requirement, the Company intends to evaluate the options available and take the necessary actions to meet the MTP Requirement. The Company will consider *inter alia* a share consolidation exercise, a transfer of its listing status from Mainboard to Catalist and/or other appropriate corporate actions such as restructuring or acquisitions of businesses.

The Investors have been informed of the MTP Requirement and are in agreement with the approach taken by the Company with regards to compliance with the MTP Requirement. There are adjustment mechanisms in the Purchase Agreement to adjust the Conversion Price, and consequently, the number of Conversion Shares that can be issued, should there be any share consolidation or other corporate exercise carried out by the Company to meet the MTP Requirement.

2.4 Information on the Investors

The Investors are investment holding companies incorporated in the BVI which are ultimately owned by PRC nationals who are private investors and/or individuals principally in the business of private equity, investments and/or investments management.

The Investors were introduced to the Company through mutual and informal contacts in the industry, and no fees or commissions were paid to such contacts. The Investors have agreed to subscribe for the Convertible Bonds for investment purposes, and have each warranted and undertaken to the Company that it has no intention of influencing the management of, or exercising control over, the Company, and neither will it seek board representation in the Company.

Further information on the Investors is set out below:

(a) Oriental Success

Oriental Success is a special purpose vehicle newly incorporated in the BVI for the subscription and purchase of the Convertible Bonds.

Oriental Success is 99% indirectly owned by Shanghai Crystal Bridge, a limited partnership registered in Shanghai, the PRC, whose registered business activities comprise industrial investments holding, advisory and management. The remaining 1% is directly owned by Mr. Qin Chuan (秦川).

The shareholders of Shanghai Crystal Bridge and ultimate beneficial owners of Oriental Success are Mr. Qin Chuan and Ms. Liu Li Li (刘莉莉), both of whom are PRC nationals principally in the business of investments and investments management. Mr. Qin Chuan is also the General Manager of Henan Hengtai Construction Limited (河南恒泰建设有限公司), which is principally engaged in building and construction in the PRC.

(b) Brain International

Brain International is a special purpose vehicle newly incorporated in the BVI for the subscription and purchase of the Convertible Bonds.

Brain International is 99% indirectly owned by Shanghai Zhen Tong, a private equity fund registered and principally based in Shanghai, the PRC, which had invested in companies listed on the Shenzhen Stock Exchange. The remaining 1% is owned by Shanghai Yi De, the fund manager of Shanghai Zhen Tong.

Shanghai Yi De is a limited company registered in Shanghai, the PRC, whose registered business activities comprise industrial investments holding, advisory and management. Shanghai Yi De is owned and/or controlled by Mr. Dong Jian Min (董建敏) and Mr. Han Chang Yin (韩长印), both of whom are PRC nationals, principally in the banking and securities industry business.

The substantial shareholders of Shanghai Zhen Tong and ultimate substantial beneficial owners of Brain International, each holding a direct and/or indirect equity interest (or equivalent) of 5% or more in Brain International, are seven (7) PRC nationals, who are private investors and/or senior management of affiliates of Shanghai Zhen Tong.

To the Company's knowledge and belief, none of the Investors, nor their respective ultimate beneficial owners, fall under any of the categories of restricted placees listed in Rule 812(1)(a) to (d) of the Listing Manual, nor do any of them have any past and/or present connections (including business relationships) with the Company, nor any Director or Substantial Shareholder other than as subscribers for the Convertible Bonds. None of the Investors, nor their ultimate beneficial owners, holds directly or indirectly any Shares as at the Latest Practicable Date.

The Investors have confirmed that:

- (i) they do not fall under any of the categories of restricted placees listed in Rule 812(1)(a) to (d) of the Listing Manual;
- (ii) they have not entered into any agreement, arrangement or understanding (whether or not in writing) with any restricted placee under Rule 812(1) of the Listing Manual to sell, transfer or otherwise dispose of any of the Convertible Bonds (or any Conversion Shares arising from any conversion of the Convertible Bonds) which will be held by them on completion of the subscription and purchase of the Convertible Bonds; and
- (iii) each of them, and their respective affiliates (including ultimate beneficial owners or shareholders), are independent from the other Investor and the affiliates of such other Investor (including ultimate beneficial owners or shareholders), and there is no agreement or understanding (whether formal or informal) pursuant to which any of them is co-operating with any person to obtain or consolidate effective control of the Company.

Each of the Investors have further confirmed that the Convertible Bonds proposed to be subscribed by each of them will not be held on trust, on behalf or as a nominee for any other person (including the restricted categories of placees listed in Rule 812(1) of the Listing Manual).

2.5 Principal Terms of the Convertible Bonds

- Issue Size : S\$60 million in aggregate principal amount of Convertible Bonds.
- Issue Price : 100% in aggregate principal amount of the Convertible Bonds.

Conversion Price : S\$0.090 per Conversion Share, subject to adjustment in the manner provided in the Conditions.

The Conversion Price is determined by the Company and the Investors after arm's length negotiations with reference to the recent trading prices of the Shares and prospects of the Group.

The Conversion Price represents a premium of approximately 76.5% to S\$0.051, being the volume weighted average price for trades done on the SGX-ST for 12 August 2015, the last full market day on which trades in the Shares were recorded prior to the signing of the Purchase Agreement on 14 August 2015. There were no trades done on 13 August 2015, the market day preceding the date of the Purchase Agreement.

Interest : The Convertible Bonds will bear interest at the rate of one per cent. (1%) per annum, payable annually in arrears.

Maturity Date : Three (3) years from the Issue Date

Notification : The Company shall, at least one (1) month before the Maturity Date, give notice to the Bondholders in accordance with Condition 14 (*Notices*) of the date of maturity of the Convertible Bonds, and shall make such announcement of such date of maturity as may be required under any applicable law (including the regulations or rules of the SGX-ST).

Conversion Period : Any time on and after one (1) month after the Issue Date, up to 5 p.m. (Singapore Time) on that date that is five (5) Business Days prior to the Maturity Date, unless previously redeemed and cancelled.

Early Redemption

If the Convertible Bonds shall have been called for early redemption before the Maturity Date, the Conversion Period shall be up to 5 p.m. (Singapore time) on a date no later than 10 days prior to the date fixed for such early redemption.

Events of default

If (a) the Company shall default in making payment in full in respect of any Convertible Bond called for redemption on the date fixed for redemption thereof; (b) any Convertible Bond becomes due and payable prior to the Maturity Date upon the occurrence of any of the events of default specified in the Conditions; or (c) any Convertible Bond is not redeemed on the Maturity Date in accordance with the Conditions, the Conversion Right attaching to such Convertible Bond will revive and will continue to be exercisable up to 5 p.m. (Singapore time) on the date upon which the full amount of the moneys payable in respect of such Convertible Bond has been duly received by or on behalf of the Bondholders.

Final Redemption : Unless previously redeemed or converted and cancelled, the Convertible Bonds will be redeemed on the Maturity Date at 100% of their principal amount plus accrued and unpaid interest.

Transferability : Freely transferable.

Subject to applicable laws and the Conditions, a Convertible Bond may be transferred by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the Company. No transfer of a Bond will be valid unless and until entered on the Register (as defined in the Conditions).

The Company is entitled to decline to register any transfer of Bonds in circumstances where the private placement exemption under Section 272B of the SFA may or will cease to apply and shall not be liable to any Bondholder in any respect.

Form and Denomination : The Convertible Bonds will be issued in registered form in the denomination of S\$1,000,000 or higher integral multiples thereof, without coupons attached.

Status of Convertible Bonds : The Convertible Bonds constitute direct, unsubordinated, unsecured and unconditional obligations of the Company. The Convertible Bonds shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by applicable laws, at all times rank at least equally with all of the Company's other present and future unsecured and unsubordinated obligations.

Status of Conversion Shares : The Conversion Shares issued upon conversion of the Convertible Bonds will be fully paid and in all respects rank *pari passu* with the Shares in issue on the relevant Registration Date (as defined in the Conditions). A holder of the Conversion Shares shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

Conversion Price Adjustments : The Conversion Price shall be subject to adjustments in certain circumstances, including but not limited to consolidation or subdivision of Shares, rights issues, cash or shares distributions or the occurrence of certain other dilutive events, further details of which are set out in Appendix 2 of this Circular.

Early Redemption at the option of the Company : On or at any time after the date falling one (1) year after the Issue Date but not less than 30 days prior to the Maturity Date, the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice will be irrevocable), redeem all or some of the Convertible Bonds (being S\$1,000,000 in principal amount or an integral multiple thereof); Provided that no such redemption may be made unless the volume-weighted average of the closing prices for one (1) Share for the Relevant Period (defined below) is at least 150% of the Conversion Price (i.e. S\$0.135).

"Relevant Period" means the 20 consecutive market days ending on the market day immediately preceding the date on which notice of (early) redemption is given.

For illustrative purposes only, based on a reference period of five (5) consecutive market days, the volume-weighted average of closing prices for such market days are derived as follows:

Date	Closing price/ Share (A)	Volume (B)	Volume-weighted average closing price (A) x (B)
Day 1	0.073	110,100	8,037.3
Day 2	0.075	139,900	10,492.5
Day 3	0.076	133,400	10,138.4
Day 4	0.060	1,300,100	78,006.0
Day 5	0.058	8,000	464.0
Total for a 5-day period		1,691,500 (C)	107,138.20 (D)
Volume-weighted average closing prices		(D) / (C)	0.06333

For the avoidance of doubt, the actual computation, for the purposes of early redemption, will be based on the Relevant Period of 20 consecutive market days (instead of the 5-day reference period above which is intended solely for illustrative purposes only).

On the expiry of any such notice, the Company will be bound to redeem the Convertible Bonds at the Early Redemption Amount, together with unpaid accrued interest (calculated up to but excluding the date of redemption) at the date fixed for such (early) redemption.

- | | | |
|-----------------------|---|--|
| Events of Default | : | Upon the occurrence of any of the events of default specified in the Conditions, the Majority Bondholders at their discretion may give notice to the Company that the Convertible Bonds be declared immediately due and payable whereupon the Convertible Bonds shall become immediately due and payable at their principal amount outstanding plus unpaid accrued interest (subject to conversion rights, if any). Further details of the events of default is set out in Appendix 2 of this Circular. |
| Restrictive Covenants | : | <p>So long as any of the Convertible Bonds remains outstanding, the Company shall not, save with the prior written consent of the Majority Bondholders (which shall not be unreasonably withheld or delayed):</p> <ul style="list-style-type: none"> (a) undertake any capital reduction, bonus issue, stock split or do such other acts in relation to its share capital or reserve or allot and issue any shares or other securities or grant any options over shares or securities or issue any warrants, convertible preference shares or other forms of convertible securities (howsoever called) which are convertible into Shares or enter into any agreement or undertaking to do the same or do, or agree or permit to, or cause to be done, such act which has an analogous effect to any of the events described above; or (b) declare any cash or other dividends or make any other distributions to Shareholders. |

- Liquidation : In the event that the Company goes into liquidation, the Convertible Bonds will rank:
- (a) junior to any present and future secured debt obligations of the Company;
 - (b) on parity among themselves;
 - (c) at least on parity with all other present and future unsecured and unsubordinated obligations (other than subordinated obligations and priorities created by law) of the Company; and
 - (d) senior to all classes of shares in the capital of the Company.

2.6 Principal Terms of the Purchase Agreement

(a) Conditions Precedent and Closing

The obligation of each Party to proceed with Closing is subject to the conditions precedent set out in Appendix 2 of this Circular being satisfied (or waived) on or prior to the Long-Stop Date.

If any of such conditions is not satisfied on or prior to the Long-Stop Date, the Purchase Agreement shall terminate and be of no further effect except for certain surviving provisions; provided however that the Company and the Investors shall remain liable for any liability arising prior to such termination. The Parties may at their discretion and upon such terms as they think fit, waive compliance with the whole or any part of such conditions precedents expressed to be waivable by them in the Purchase Agreement.

(b) Termination

Notwithstanding anything contained in the Purchase Agreement, the Investors or, as the case may be, the Company may, by written notice to the Company or, as the case may be, the Investors, given by any time prior to Closing, terminate the Purchase Agreement in any of the circumstances set out in Appendix 2 of this Circular.

Upon such written notice being, the Purchase Agreement shall terminate and be of no further effect except for certain surviving provisions; provided however that the Company and the Investors shall remain liable for any liability arising prior to such termination.

2.7 Adjustment and Modification

In compliance with Rules 829 and 830 of the Listing Manual, the Company will:

- (a) announce any adjustment made to the Conversion Price and/or number of the Convertible Bonds, in the event of rights, bonus or other capitalisation issues;
- (b) announce the Maturity Date, and a notice of the maturity will be sent to the Bondholders at least one (1) month before the Maturity Date; and
- (c) obtain Shareholders' approval at a general meeting of the Shareholders for any material modification to the terms of the Convertible Bonds which is for the benefit of the Bondholders, unless such modification is made pursuant to the terms of the Convertible Bonds.

2.8 Use of Proceeds

The net proceeds from the Bonds Issue, after deducting costs and expenses related to the Bonds Issue of approximately S\$700,000, is approximately S\$59,300,000 (approximately RMB 269,423,000) (the “**Net Proceeds**”).

The Company intends to allocate the Net Proceeds in the following manner:

	Amount Allocated (RMB)	Amount Allocated (S\$) ⁽¹⁾	Amount Allocated as a percentage of Net Proceeds (%)
Use of Proceeds			
(a) Repayment of bank loans	125,000,000	27,512,500	46.4
(b) Business Expansion	122,600,000	26,984,260	45.5
(c) General working capital	21,823,000	4,803,242	8.1

Note:

(1) Based on an exchange rate of RMB1.00 to S\$0.2201.

The application of the Net Proceeds is further elaborated as follows:

(a) Repayment of bank loans

As at the Latest Practicable Date, the Group had entered into cross or mutual guarantee arrangements to secure bank loans of an aggregate amount of RMB 125,000,000.

These bank loans, which were granted by various banks based in the PRC, generally have a tenure of 12 months. Upon approval of the Bonds Issue, the Company intends to apply the allocated Net Proceeds to retire these bank loans as and when they fall due. The counterparties involved in such mutual guarantee arrangements (other than the banks concerned) are not related in any respect with the Company, nor any director or substantial shareholder of the Company.

(b) Business Expansion

As mentioned in the AR2014, the Group has manufacturing facilities in Hebi, Wuhu, Jiangxi, Harbin, Shenyang, Fujian, Shanghai, Chongqing and Liuzhou in the PRC. Four (4) of these manufacturing facilities are presently operating near their peak capacity and expanded premises are required as the Company focuses on growing its order book with orders from leading international automobile makers.

The Company intends to apply the Net Proceeds allocated for “Business Expansion” towards *inter alia* the expansion of the existing production lines, capacity and premises of these manufacturing facilities (including relocation to expanded premises where appropriate), purchase of new machinery to supplement and/or replace existing machinery, and research and development (“**R&D**”) efforts for technical improvements and developments to improve existing manufacturing processes, products, and products range. The R&D efforts relate mainly to improvements to products and process capabilities in automotive electronic and electrical distribution systems, connector systems, machinery and automotive electronics, with a view to being a full-service automotive component supplier for both domestic (PRC) and global markets.

The Company shall announce the use of the proceeds as and when such funds are materially disbursed and whether such a use is in accordance with the stated use and in accordance with the percentage allocated. Where there is any material deviation from the stated use of proceeds, the Company shall announce the reasons for such deviation. The Company shall also provide a status report on the use of proceeds in its quarterly financial statements announcements and annual report.

2.9 Proceeds Oversight Committee

To ensure that the application of the Net Proceeds is consistent with the allocation set out in Section 2.8 of this Circular (the “**Allocation**”), the Company intends to adopt and/or comply with the following procedures:

- (a) the Net Proceeds will be deposited into a specific and separate bank account in Singapore;
- (b) the disbursement of the Net Proceeds of any amount exceeding S\$1 million for a single transaction or series of transactions relating to the same subject matter where the total disbursement is more than S\$1 million will be subject to the prior approval of the Proceeds Oversight Committee;
- (c) Chairman of the Proceeds Oversight Committee will monitor the disbursement of Net Proceeds and prepare and/or update the schedule of cash movement (the “**Net Proceeds Schedule**”) from the aforementioned bank account;
- (d) the Net Proceeds Schedule will be subject to review by the Proceeds Oversight Committee on a monthly basis and a further review by the Audit Committee on a quarterly basis;
- (e) appropriate supporting documents will be maintained by the Chairman of the Proceeds Oversight Committee in connection with the disbursement of the Net Proceeds; and
- (f) the re-deployment of Net Proceeds for other purposes will be subject to the prior approval of the Proceeds Oversight Committee, the Board and Shareholders (where appropriate).

The Proceeds Oversight Committee will be delegated authority by the Board to provide independent oversight over the disbursement and use of the Net Proceeds.

The Proceeds Oversight Committee will be chaired by the Chairman of the Audit Committee of the Company (the “**AC Chairman**”), and its other members shall consist of :

- (A) Mr. Sim Hong Boon (Lead Independent Director);
- (B) Mr. Zhang Shulin (Independent Director); and
- (C) Mr. Yang Yong Jun (Non-Executive Director).

As the AC Chairman is yet to be appointed following the resignation of the previous AC Chairman, the Proceeds Oversight Committee shall be chaired by Mr. Sim Hong Boon (Lead Independent Director), in the interim, until the new AC Chairman is appointed.

The key terms of reference of the Proceeds Oversight Committee are as follows:

- (i) to consider, review and approve the disbursement of Net Proceeds by the Company and/or its subsidiaries for any amount exceeding S\$1 million for a single transaction or series of transactions relating to the same subject matter where the total disbursement is more than S\$1 million for consistency with the Allocation;
- (ii) to review the Net Proceeds Schedule on a monthly basis;
- (iii) to request and review the relevant supporting documents in connection with the disbursement and utilisation of the Net Proceeds;
- (iv) to review, from time to time, the guidelines and procedures established in relation to the Allocation to ensure that the Net Proceeds have been utilised in accordance with the Allocation, and to recommend and oversee the implementation of the additional internal controls, guidelines and procedures, if required;
- (v) to review and approve the re-deployment of Net Proceeds for other purposes;

- (vi) to update the Board on the disbursement and utilisation of the Net Proceeds, as and when required;
- (vii) to recommend to the Board any appropriate extensions or changes in the role and powers of the Proceeds Oversight Committee; and
- (viii) to carry out such other duties as required by the Board.

The Proceeds Oversight Committee will have full and unrestricted access to the internal auditors (if necessary) and the management, to enable it to discharge its functions.

2.10 Previous Fund Raising Activities

The Company has not raised any funds from the equity capital markets in the two (2) years prior to the Latest Practicable Date.

2.11 Receipt of approval in-principle from the SGX-ST

An application has been made to the SGX-ST for the approval of the listing and quotation of the Conversion Shares.

As announced by the Company on 30 September 2015, the Company received on 28 September 2015 the approval in-principle from the SGX-ST in relation to the listing and quotation of up to 666,666,667 Conversion Shares.

The listing and quotation of the Conversion Shares are subject to the following conditions:

- (a) compliance with the listing requirements of the SGX-ST;
- (b) approval from the Shareholders being obtained for the Bonds Issue and the allotment and issuance of the Conversion Shares;
- (c) announcement by the Company of the conditions under which the Conversion Price may be adjusted and the conditions under which the Convertible Bonds may be redeemed;
- (d) submission of the following to the SGX-ST:
 - (i) a written undertaking from the Company that it will comply with Rule 704(30) and Rule 1207(20) of the Listing Manual in relation to the use of the proceeds from the Bonds Issue and where proceeds are to be used for working capital purposes, the Company will disclose a breakdown with specific details on the use of proceeds for working capital in the Company's announcements on use of proceeds and in the annual report;
 - (ii) a written confirmation from the Company that it will comply with Rule 803 of the Listing Manual;
 - (iii) a written confirmation from the Company that it will not place the Convertible Bonds to persons prohibited under Rule 812(1) of the Listing Manual;
 - (iv) a written confirmation from the Company that the terms of the Bonds Issue and the Convertible Bonds comply with Rule 829(1) of the Listing Manual;
 - (v) a written undertaking from the Company to announce any adjustment made pursuant to Rule 829(1) of the Listing Manual; and
 - (vi) a written undertaking from the Company that it will comply with Rule 831 of the Listing Manual.

The approval in-principle given by the SGX-ST for the listing and quotation of the Conversion Shares is not to be taken as an indication of the merits of the Bonds Issue, the Convertible Bonds, the Conversion Shares, the Company, its subsidiaries and their securities.

2.12 No Prospectus or Offer Information Statement

The Bonds Issue is undertaken pursuant to the private placement exemption under Section 272B of the SFA, and no prospectus or offer information statement will be issued by the Company in connection therewith. Each Investor has confirmed its status as an “accredited investor” under the SFA for the purposes of the Bonds Issue.

3. RATIONALE FOR CONVENING SGM

The Directors propose to convene a SGM to seek specific approval from the Shareholders for:

3.1 Allotment and issue of the Convertible Bonds and the Conversion Shares.

Pursuant to Rule 805 of the Listing Manual, an issue of Shares or convertible securities, other than pursuant to a general mandate approved by the Shareholders, requires the specific approval of the Shareholders at a general meeting of the Shareholders.

The maximum number of Conversion Shares to be allotted and issued by the Company, pursuant to the full conversion of the S\$60 million in aggregate principal amount of Convertible Bonds is 666,666,667 (based on the Conversion Price of S\$0.090 and assuming no further adjustments to the Conversion Price).

Such maximum number of Conversion Shares to be allotted and issued exceeds the permissible threshold number of Shares which may be issued by the Company (on a basis other than a *pro-rata* issue to all Shareholders) pursuant to the general mandate approved by the Shareholders at the annual general meeting of the Company held on 28 April 2015 for the issuance of Shares and convertible securities.

3.2 Potential transfer of controlling interest

Pursuant to Rule 803 of the Listing Manual, an issue of new securities to a person resulting in that person becoming a controlling shareholder of the Company requires the approval of the Shareholders at a general meeting of the Shareholders.

The Bonds Issue involves the proposed issue of S\$60 million in aggregate principal amount of Convertible Bonds, of which

- (a) S\$28 million in aggregate principal amount of Convertible Bonds is proposed to be issued to Oriental Success, representing approximately 46.7% of the aggregate issue size of the Bonds Issue; and
- (b) S\$32 million in aggregate principal amount of Convertible Bonds is proposed to be issued to Brain International, representing approximately 53.3% of the aggregate issue size of the Bonds Issue.

The 666,666,667 Conversion Shares to be issued upon full conversion of the S\$60 million in aggregate principal amount of Convertible Bonds represent approximately 49.4% of all the issued Shares on a fully-diluted basis.

In the event that any of the Investors exercises its Conversion Right in full in respect of its entire holding of Convertible Bonds, such Investor is likely to hold more than 15% of the enlarged issued share capital of the Company following such conversion and by virtue thereof become a controlling shareholder of the Company for the purposes of the Listing Manual, as illustrated in the scenarios set out below:

A. **Scenario A** – assuming that:

- (I) Oriental Success exercises its Conversion Right in full in respect of its subscription for S\$28 million in aggregate principal amount of Convertible Bonds; and
- (II) Brain International does not exercise its Conversion Right in respect of its subscription for the remaining S\$32 million in aggregate principal amount of Convertible Bonds;

B. **Scenario B** – assuming that:

- (I) Oriental Success does not exercises its Conversion Right in respect of its subscription for S\$28 million in aggregate principal amount of Convertible Bonds; and
- (II) Brain International exercises its Conversion Right in full in respect of its subscription for the remaining S\$32 million in aggregate principal amount of Convertible Bonds; and

C. **Scenario C** – assuming that both Investors exercise their Conversion Rights in respect of their respective subscriptions for \$60 million in aggregate principal amount of Convertible Bonds.

	Percentage interests of substantial shareholders (%) ⁽¹⁾			
	As at Latest Practicable Date ⁽²⁾	Scenario A ⁽³⁾	Scenario B ⁽⁴⁾	Scenario C ⁽⁵⁾
Zoro Express	28.33	19.5	18.6	14.3
Shine Sound	21.11	14.5	13.9	10.7
Oriental Success	–	31.3	–	23.1
Brain International	–	–	34.3	26.4

Notes:

- (1) The direct and deemed interests of Substantial Shareholders is set out in Appendix 4 of this Circular.
- (2) Based on an issued share capital of 681,600,000 Shares. There are no treasury shares as at the Latest Practicable Date.
- (3) Based on an enlarged issued share capital of 992,711,111 Shares, assuming that 311,111,111 Conversion Shares are issued to Oriental Success pursuant to the full conversion of its holding of S\$28 million in aggregate principal amount of Convertible Bonds.
- (4) Based on an enlarged issued share capital of 1,037,155,556 Shares, assuming that 355,555,556 Conversion Shares are issued to Brain International pursuant to the full conversion of its holding of S\$32 million in aggregate principal amount of Convertible Bonds.
- (5) Based on an enlarged issued share capital of 1,348,266,667 Shares, assuming that 311,111,111 and 355,555,556 Conversion Shares are issued to Oriental Success and Brain International respectively pursuant to the full conversion of all Convertible Bonds.

3.3 Implications under the Code

Shareholders should also note that under Rule 14 of the Code, a shareholder of the Company and persons acting in concert with such shareholder will incur an obligation to make a mandatory take-over offer for the Company if, *inter alia*, it and persons acting in concert with it increase their voting rights in the Company to 30% or more. The effect of Rule 14 with respect to the exercise by a Bondholder of its Conversion Right is that unless exempted, such Bondholder and persons acting in concert with it will incur an obligation to make a take-over offer under Rule 14 if, as a result of such Bondholder converting its Convertible Bonds into Conversion Shares, the voting rights of such Bondholder and its concert parties would increase to 30% or more in the share capital of the Company. There is however no assurance that any Bondholder will incur such obligation to make a mandatory take-over offer under Rule 14.

4. RISK FACTORS

The Conditions contain certain covenants that require the approval of the Majority Bondholders for various corporate actions

Under the Conditions, so long as any of the Convertible Bonds remains outstanding, the prior written consent of the Majority Bondholders (which shall not be unreasonably withheld or delayed) is required for certain corporate matters described in Section 2.5 of this Circular under the heading “Restrictive Covenants”. If such consent is not obtained, the Company may not proceed with such matters. In the event that the Company does not comply with such covenants, this may trigger an event of default under the Conditions whereupon the Majority Bondholders (at their discretion) may give notice to the Company that the Convertible Bonds be declared immediately due and payable at their principal amount outstanding plus unpaid accrued interest (subject to conversion rights, if any).

The Company may be required to redeem the Convertible Bonds prior to the Maturity Date, upon the occurrence of various events of default

The Company may be required, subject to certain conditions, to redeem the Convertible Bonds in cash prior to the Maturity Date upon the occurrence of any of the events of default described in Appendix 2 of this Circular entitled “Events of Default, Conditions Precedent and Termination Rights”. To effect such redemption, the Company will have to utilise its existing cash resources and/or undertake alternative financing to raise cash. In the case of the former, the amount of cash flow available to the Company after effecting the redemption of the Convertible Bonds will be reduced and in the case of the latter, there is no assurance that the Company will be able to secure alternative financing on a timely basis, on commercially favourable terms, or at all. Furthermore, the occurrence of any of such events may, in turn, constitute events of default under the terms of the Group’s other banking and/or financing facilities, which may result in the Group’s indebtedness under such facilities being declared immediately due and payable, and adversely affect the Group’s business, operations and/or financial condition.

The Company may be subject to a change of control arising from the sale and conversion of the Convertible Bonds

The Convertible Bonds are intended to be freely transferable. While the Investors have each warranted that it has no intention of influencing the management of, or exercising control over, the Company, and neither will it seek board representation in the Company, there is no assurance as to whether the Investors will exercise their rights to convert and/or sell their respective holdings of the Convertible Bonds, and whether the purchasers of such Convertible Bonds elect to subsequently on-sell and/or convert such bonds with a view to influencing the management of, or exercising control over, the Company. There can further be no assurance as to whether the interests of the holders of the Convertible Bonds and Conversion Shares, as the case may be, then are aligned with the interests of the other Shareholders (including the existing controlling shareholders), or whether they may vote or otherwise act in a manner which may obstruct, delay or prevent any changes which may be viewed as beneficial to the Company.

5. FINANCIAL EFFECTS

The Company is of the view that it is not possible at the Latest Practicable Date to determine precisely the financial effects of the Bonds Issue on the Company or the Group until the Convertible Bonds have been fully converted or otherwise redeemed. However, for purposes of illustration only, the Company has set out in Appendix 3 of this Circular the financial effects of the Bonds Issue on the share capital, NTA and NTA per Share and gearing of the Company and the Group in connection with the issue of S\$60 million in aggregate principal amount of Convertible Bonds at the Conversion Price of S\$0.090.

For the avoidance of doubt, nothing in this Circular may be treated as a representation by the Company as to the trading price of the Shares on the SGX-ST during the term of the Convertible Bonds or for any other period of time.

Assuming, for purposes of illustration only, that the Convertible Bonds are converted at the Conversion Price of S\$0.090 and based on the existing 681,600,000 issued Shares as at the Latest Practicable Date, the Conversion Shares which will be issued pursuant to a full conversion of S\$60 million in aggregate principal amount of Convertible Bonds, is 666,666,667 Shares, which represents a maximum of approximately 49.4% of the Company's issued and paid-up share capital on a fully diluted basis.

The issued share capital of the Company as at the Latest Practicable Date comprises 681,600,000 Shares. There are no treasury shares as at the Latest Practicable Date.

The Company is of the view that it is not possible to quantify in any meaningful way the effect of the Bonds Issue on the earnings of the Company and/or the Group until the proceeds of the Bonds Issue have been fully deployed. Pending the deployment of the proceeds for the purposes stated in Section 2.8 of this Circular entitled "Use of Proceeds", the proceeds may be placed in fixed deposits or invested in money market instruments as the Directors deem fit.

The net effect on the earnings and earnings per Share will depend on the income earned from such deployment of the proceeds.

6. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

6.1 The interests of the Directors and Substantial Shareholders in the following scenarios, namely:

- (a) before the conversion of the Convertible Bonds; and
- (b) assuming conversion of S\$60 million in aggregate principal amount of Convertible Bonds at the Conversion Price of S\$0.090,

are set out in Appendix 4 of this Circular.

6.2 Save as set out in this Circular, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect in the Bonds Issue (and any issue of Conversion Shares arising from any conversion of the Convertible Bonds), the Investors or any of their respective ultimate beneficial owners, save for their interests arising by way of their shareholdings and/or directorships, as the case may be, in the Company.

7. SPECIAL GENERAL MEETING

7.1 The SGM, notice of which is set out on page N-1 of this Circular, will be held at Rasa Suites 1 & 2, Level 6, Shangri-La's Rasa Sentosa Resort, 101 Siloso Road, Sentosa, Singapore 098970 on 3 November 2015 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, on a poll taken, the ordinary resolution set out in the Notice of SGM.

7.2 A Depositor shall not be regarded as a member of the Company entitled to attend the SGM and to speak and vote thereat unless he is shown to have Shares entered against his name in the Depository Register, as certified by the CDP not less than 48 hours before the time fixed for the SGM.

8. ACTION TO BE TAKEN BY SHAREHOLDERS

8.1 Shareholders who are unable to attend the SGM and who wish to appoint a proxy to attend and vote on their behalf are advised to read the Notice of SGM relating to the Bonds Issue carefully and to complete, sign and return the Member Proxy Form attached to this Circular in accordance with the instructions printed thereon as soon as possible, and in any event to reach the registered office of the Company's Share Registrar, B.A.C.S. Private Limited, at 8 Robinson Road #03-00 ASO Building Singapore 048544 not less than 48 hours before the time fixed for the SGM. The completion and sending of the Member Proxy Form by a Shareholder does not preclude him from attending and voting in person at the SGM if he wishes to do so, in place of his proxy.

- 8.2 Depositors with Shares credited to their Securities Accounts who wish to attend and vote at the SGM or appoint a proxy, must complete, sign and return the Depositor Proxy Form completed by CDP in accordance with the instructions printed thereon as soon as possible and in any event, so as to reach the registered office of the Company's Share Registrar, B.A.C.S. Private Limited, at 8 Robinson Road #03-00 ASO Building Singapore 048544 not less than 48 hours before the time fixed for the SGM.

A Depositor who is an individual and who wishes to attend the SGM in person is reminded that the Depositor Proxy Form appointing him/herself as proxy must similarly be deposited not less than 48 hours before the time fixed for the SGM in order for him/her to be able to attend and vote at the SGM.

- 8.3 The ordinary resolution set out in the Notice of SGM relating to the Bonds Issue will be taken by way of a poll. As announced by the SGX-ST on 31 July 2013, companies are required to conduct the voting of all resolutions put to general meetings by poll with effect from 1 August 2015, so as to enhance transparency of the voting process and encourage greater shareholders' participation.

9. RECOMMENDATION OF THE DIRECTORS

The Directors, having considered the rationale and terms of the Bonds Issue, are of the view that the Bonds Issue (and any issue of Conversion Shares arising from any conversion of the Convertible Bonds) is in the best interests of the Company. Accordingly, the Directors recommend that Shareholders vote in favour of the ordinary resolution relating to the Bonds Issue at the SGM.

10. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Bonds Issue, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

11. CONSENT

The Arranger, Stirling Coleman Capital Limited, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its name and all references thereto, in the form and context in which they appear in this Circular.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company's Share Registrar, B.A.C.S. Private Limited, at 8 Robinson Road #03-00 ASO Building Singapore 048544 during normal business hours from the date hereof up to and including the date of the SGM:

- (a) Purchase Agreement;
- (b) Memorandum of Association and Bye-Laws of the Company;
- (c) Consent letter from the Arranger; and
- (d) Annual Report 2014.

Yours faithfully

For and on behalf of the Board of Directors of
China Auto Electronics Group Limited

Zhang Jingtang
(Executive Chairman)

APPENDIX 1 – ADJUSTMENTS TO CONVERSION PRICE

(The following is in the text of Condition 6.3 of the terms and conditions of the Convertible Bonds)

The Conversion Price will be subject to adjustment in the following events:

(a) Consolidation, Subdivision or Reclassification

If and whenever there shall be an alteration to the number of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

Where:

A is the number of Shares in issue immediately before such alteration; and

B is the number of Shares in issue immediately after such alteration.

Effective Date: Such adjustment shall become effective on the date the alteration takes effect.

(b) Capitalisation of Profits or Reserves

- (i) If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves, including Shares paid up out of distributable profits or reserves (except any Scrip Dividend) and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

Where:

A is the number of Shares in issue immediately before such issue; and

B is the number of Shares in issue immediately after such issue.

Effective Date: Such adjustment shall become effective on the date of issue of such Shares, or if a record date is fixed therefor, immediately after such record date.

- (ii) In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price of such Shares exceeds the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

A is the aggregate number of Shares immediately before such issue;

B is the aggregate number of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the Current Market Price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend; and

APPENDIX 1 – ADJUSTMENTS TO CONVERSION PRICE

- C is the aggregate number of Shares issued by way of such Scrip Dividend, or by making such other adjustment as an Independent Financial Adviser (as defined below) shall certify to the Company is fair and reasonable.

Effective Date: Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(c) Distributions

If and whenever the Company shall pay or make any Distribution to the Shareholders (except where the Conversion Price falls to be adjusted under Condition 6.3(b) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the Trading Day immediately preceding the date on which the Distribution is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the Distribution divided by the number of Shares in issue on such date.

Effective Date: Such adjustment shall become effective on the date that such Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

When the Distribution is by means of a distribution of a cash dividend, only such portion of the cash dividend which exceeds any distribution in cash in respect of Shares arising out of 30% of the Company's distributable earnings and profits of the current financial year (the "**excess portion**") shall be regarded as Distribution and only the excess portion shall be taken into account in determining the Fair Market Value of the portion of the Distribution attributable to one Share.

"Distribution" means (1) any distribution of assets in specie by the Company for any financial period whenever paid or made and however described (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully paid by way of capitalisation of reserves); and (2) any cash dividend or distribution of any kind by the Company for any financial period (whenever paid and however described).

(d) Rights Issues of Shares or Options over Shares

If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 95% of the Current Market Price per Share on the Trading Day immediately preceding the date of the announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such announcement;

APPENDIX 1 – ADJUSTMENTS TO CONVERSION PRICE

- B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Effective Date: Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

(e) Rights Issues of Other Securities

If and whenever the Company shall issue any securities (except where the Conversion Price falls to be adjusted under Condition 6.3(d) above) to all or substantially all Shareholders as a class by way of rights, or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the Trading Day immediately preceding the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Effective Date: Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be).

(f) Issues at less than Current Market Price

If and whenever the Company shall issue any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant options, warrants or other rights to subscribe or purchase Shares, in each case at a consideration per Share which is less than 95% of the Current Market Price, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{C}$$

Where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for or purchase any Shares;
- B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at the Current Market Price; and
- C is the number of Shares in issue immediately after the issue of such additional Shares.

APPENDIX 1 – ADJUSTMENTS TO CONVERSION PRICE

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Effective Date: Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue of such options, warrants or other rights.

(g) Other Issues at less than Current Market Price

Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this Condition 6.3(g), if and whenever the Company or any of its subsidiaries (other than as mentioned in Condition 6.3(d), Condition 6.3(e) or Condition 6.3(f)), or (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries), any other company, person or entity shall issue any securities (other than the Bonds excluding for this purpose any further bonds) at a consideration per Share which is less than 95% of the Current Market Price on the Trading Day immediately preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Effective Date: Such adjustment shall become effective on the date of issue of such Securities

(h) Modification of Rights of Conversion etc

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 6.3(g) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 95% of the Current Market Price on the Trading Day immediately preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such modification;

APPENDIX 1 – ADJUSTMENTS TO CONVERSION PRICE

- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Financial Adviser considers appropriate (if at all) for any previous adjustment under this Condition 6.3(h) or Condition 6.3(g).

Effective Date: Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

(i) Other Events

If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this Condition 6.3, or the Company determines that an adjustment made pursuant to this Condition 6.3 is inappropriate or incorrect, the Company shall, at its own expense, consult an Independent Financial Adviser, to determine as soon as practicable (i) what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, (ii) if the adjustment would result in a reduction in the Conversion Price, and (iii) the date on which such adjustment should take effect or if an adjustment is inappropriate and should not be made, and upon such determination by the Independent Financial Adviser such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the circumstances giving rise to any adjustment pursuant to this Condition 6 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 6 as may be advised by the Independent Financial Adviser to be in its opinion appropriate to give the intended result.

(j) Calculation of Consideration Receivable

For the purpose of any calculation of the consideration receivable pursuant to Conditions 6.3(f), 6.3(g) and 6.3(h):

(i) Issue of Shares for Cash

The aggregate consideration receivable for Shares issued for cash shall be the amount of such cash provided that in no case shall any deduction be made for any commission or any expenses paid or incurred by the Company for any underwriting of the issue or otherwise in connection therewith;

(ii) Issue of Shares on Conversion or Exercise of Securities

(1) the aggregate consideration receivable for the Shares to be issued on the conversion or exchange of any securities shall be deemed to be the consideration received or receivable by the Company for any such securities and (2) the aggregate consideration receivable for the Shares to be issued on the exercise of rights of subscription attached to any securities shall be deemed to be such part (which may be the whole) of the consideration received or receivable by the Company for such securities as is attributed by the Company to such rights of subscription or, if no part of such consideration is so attributed, the Fair Market Value of such rights of subscription as at the date of the announcement of the terms of issue of such securities as determined in good faith by an Independent Financial Adviser (assuming such Fair Market Value is lower than the consideration received or receivable by the Company for such securities), plus in the case of each of (1) and (2) above, the additional consideration (if any) to be received by the Company on the conversion or exchange of such securities, or on the exercise of such rights of subscription (the consideration in all such cases to be

APPENDIX 1 – ADJUSTMENTS TO CONVERSION PRICE

determined subject to the proviso in Condition 6.3(j)(i) and (3) the consideration per Share receivable by the Company on the conversion or exchange of, or on the exercise of such rights of subscription attached to, such securities shall be the aggregate consideration referred to in (1) or (2) above (as the case may be) converted into Singapore dollars if such consideration is expressed in a currency other than Singapore dollars at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate in effect on the date of announcement of the terms of issue of such securities, divided by the number of Shares to be issued on such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate.

(k) More than One Event in Quick Succession

Where more than one (1) event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the reasonable opinion of the Company, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Financial Adviser to be in its opinion appropriate for that purpose to give such intended result.

(l) Employee Share Option Scheme

No adjustment will be made to the Conversion Price when Shares or other securities (including rights, warrants or options) are issued, offered or granted to employees (including directors) of the Company or any subsidiary or any other eligible persons pursuant to any present or future share option scheme or incentive scheme of the Company or subsidiary provided that the scheme is in compliance with the listing rules of the SGX-ST.

(m) Rounding and Minor Adjustments

On any adjustment, the resultant Conversion Price, if not an integral multiple of one Singapore cent, shall be rounded down to the nearest Singapore cent. No adjustment shall be made to the Conversion Price if such adjustment (rounded down if applicable) would be less than one per cent. (1%) of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustments shall be given to Bondholders in accordance with Condition 16 (*Modification*) as soon as practicable after their determination.

(n) Independent Financial Adviser's Certificate Conclusive

If any doubt shall arise as to the appropriate adjustment to the Conversion Price, a certificate or report of an Independent Financial Adviser shall be conclusive and binding on the Company and each Bondholder, save in the case of manifest error.

(o) Increases in Conversion Price

No adjustment resulting in an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in Condition 6.3(a).

APPENDIX 2 – EVENTS OF DEFAULT, CONDITIONS PRECEDENT AND TERMINATION RIGHTS

(The following is in the text of Condition 10 of the terms and conditions of the Convertible Bonds)

Events of Default

If any of the following events (each an “**Event of Default**”) occurs, the Majority Bondholders at their discretion may give notice to the Company that the Convertible Bonds be declared immediately due and payable whereupon the Convertible Bonds shall become immediately due and payable at their principal amount outstanding plus unpaid accrued interest (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6.1(d)):

(a) **Non-Payment**

A default is made in the payment of any amount (principal, interest or otherwise) due in respect of the Convertible Bonds which amount is not remedied within 30 days;

(b) **Failure to deliver Shares**

Any failure by the Company to deliver Shares as and when the Shares are required to be delivered following conversion of Convertible Bonds which is not remedied within 30 days;

(c) **Breach of other obligations**

The Company does not perform or comply, in a material respect, with one or more of its other obligations in the Convertible Bonds which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after written notice of such default shall have been given to the Company by the Majority Bondholders;

(d) **Insolvency**

The Company or any of its principal subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Company or any of its principal subsidiaries; an administrator or liquidator of the Company or any of its principal subsidiaries or the whole or any part of the assets and turnover of the Company or any of its principal subsidiaries is appointed (or application for any such appointment is made, provided that this paragraph (d) shall not apply in respect of debts incurred in the ordinary course of business by the Company or any of its principal subsidiaries and which are being contested in good faith and for which no event of default in respect of such outstanding Indebtedness has been declared;

(e) **Cross-Default**

Any other present or future indebtedness (whether actual or contingent) of the Company or any of its principal subsidiaries for or in respect of moneys borrowed or raised becomes, or becomes capable of being declared, due and payable prior to its stated maturity by reason of (i) any actual or potential default event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Company or any of its principal subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that (A) the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (e) have occurred equals or exceed S\$5.0 million or its equivalent in any other currency on the day on which such

APPENDIX 2 – EVENTS OF DEFAULT, CONDITIONS PRECEDENT AND TERMINATION RIGHTS

indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantees or indemnity; and (B) this paragraph (e) shall not apply in respect of indebtedness incurred in the ordinary course of business by the Company or any of its principal subsidiaries and which are being contested in good faith and for which no event of default in respect of such outstanding indebtedness has been declared;

(f) Enforcement Proceedings and Security Enforced

(i) A distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any of the property, assets or turnover of the Company or any of its principal subsidiaries and is not discharged or stayed within 30 days; or (ii) an encumbrancer takes possession or an administrative or other receiver, manager, administrator or other similar officer is appointed, of the whole or any part of the property, assets or turnover of the Company or any of its principal subsidiaries (as the case may be) and is not discharged within 30 days;

(g) Winding-up

An order is made or an effective resolution passed for the winding-up or dissolution or administration of the Company or any of its principal subsidiaries (except for a members' voluntary solvent winding-up), or the Company or any of its principal subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations and except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Bondholders, or (ii) in the case of any principal subsidiary, whereby the undertaking and assets of such principal subsidiary are transferred to or otherwise vested in the Company or its other principal subsidiaries;

(h) Nationalisation or Compulsory Acquisition

(i) Any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company or any of its principal subsidiaries; or (ii) the Company or any of its principal subsidiaries is prevented from exercising normal control over all or any substantial part of its property, assets and turnover;

(i) Authorisation and Consents

Any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Company lawfully to exercise its rights and perform and comply with its obligations under the Convertible Bonds, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Convertible Bonds admissible in evidence in the courts of Singapore is not taken, fulfilled or done;

(j) Illegality

It is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the Convertible Bonds;

(k) Change of Control

There has been a Change of Control in the Company; and

(l) Analogous Events

Any event occurs which under the law of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

For the purposes of Condition 10.1(k) above, a “**Change of Control**” occurs when:

- (i) any person or persons, other than a Controlling Shareholder, acquires Control of the Company;

APPENDIX 2 – EVENTS OF DEFAULT, CONDITIONS PRECEDENT AND TERMINATION RIGHTS

- (ii) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company's assets to any other person, unless such consolidation, merger, sale or transfer will not result in another person or persons (other than a Controlling Shareholder) acquiring Control over the Company or the successor entity; or
- (iii) one or more other persons (other than a Controlling Shareholder) acquires the legal or beneficial ownership of all or substantially all of the Company's issued and outstanding shares, ownership interests, participation or other equivalents (however designated), including all ordinary shares and all preferred shares which carry voting rights.

For the purposes of the above:

"Control" of an entity means (I) ownership of more than 50% of the shares in issue or other equity interests or registered capital of such entity or (II) the power to direct the management or policies of such entity, whether through more than 50% of the voting power of such entity, through the power to appoint a majority of the members of the board of directors or similar governing body of such entity, through contractual arrangements or otherwise.

"Controlling Shareholder" means any of the following persons and/or entities: Mr. Wang Laisheng, Zoro Express International Ltd, Mr. Yang Yong Jun and Shine Sound Investments Ltd.

"principal subsidiary" means any direct or indirect subsidiary of the Company (i) whose revenues, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such subsidiary, are at least 10% of the consolidated revenues of the Company as shown in the latest audited consolidated accounts of the Company or (ii) whose total assets, as shown in the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such subsidiary are at least 10% of the consolidated total assets of the Company as shown in the latest audited consolidated accounts of the Company, including any such subsidiary as may be acquired or formed by the Company from time to time during the term of the Bonds.

(The following is in the text of Section 8.1 of the Purchase Agreement)

Conditions Precedent

Each Party's obligations to proceed with Closing are subject to the satisfaction or waiver (in accordance with Section 8.3 of the Purchase Agreement) of the following conditions precedent (each a **"Conditions Precedent"**):

- (a) the Company having obtained the in-principle approval from the SGX-ST for the issue of the Convertible Bonds and the listing and quotation of the Conversion Shares and such approval has not been revoked;
- (b) at the Closing Date:
 - (i) the warranties and undertakings of the Company set forth in Schedule 1 of the Purchase Agreement (**"Company Warranties"**) shall be true and correct in all material respects as if made on such date;
 - (ii) the warranties and undertakings of each Investor set forth in Section 4.1 of the Purchase Agreement shall be true and correct in all material respects as if made on such date;
 - (iii) the Company shall have performed and complied with all of its agreements and obligations under the Purchase Agreement expressed to be performed or complied with on or before such date;

APPENDIX 2 – EVENTS OF DEFAULT, CONDITIONS PRECEDENT AND TERMINATION RIGHTS

- (iv) each Investor shall have performed and complied with all of its agreements and obligations under the Purchase Agreement expressed to be performed or complied with on or before such date; and
- (c) the Company has duly attended to and carried out all corporate procedures that are required under the law of its place of incorporation or establishment and/or the listing rules of the SGX-ST to effect the execution, delivery and performance of the Purchase Agreement and the transactions contemplated hereby, such corporate procedures comprising:
 - (i) approval by the Board for the issuance of the Convertible Bonds to the Investors and the execution and delivery by the Company of the Purchase Agreement and the Convertible Bonds certificate and the and performance of all the transactions contemplated thereby; and
 - (ii) approval by shareholders of the Company for the issuance of the Convertible Bonds and the Conversion Shares and such other matter(s) required under the listing rules of the SGX-ST; and
- (d) the creation, issue, offering or sale of the Convertible Bonds upon the terms of this Agreement being compliant with, and not being prohibited by, applicable law.

(The following is in the text of Section 9 of the Purchase Agreement)

Termination Rights

- 9.1 Notwithstanding anything contained herein, any Investor may, by written notice to the Company given at any time prior to Closing, terminate this Agreement in any of the following circumstances:
 - (a) if there shall have come to the notice of such Investor any breach of, or any event rendering untrue or incorrect in any material respect, any of the Company Warranties, or any failure by the Company to perform any of its undertakings or agreements in this Agreement, and the Company fails to remedy (if capable of remedy) such breach, event or failure within 30 days after the date of the written notice from such Investor to do so; or
 - (b) if such Investor is aware that any one or more of the Conditions Precedent is incapable of been fulfilled on or prior to the Long-Stop Date.
- 9.2 Notwithstanding anything contained herein, the Company may, by written notice to the Investors given at any time prior to Closing, terminate this Agreement in any of the following circumstances:
 - (a) if the in-principle approval from the SGX-ST for the issue of the Convertible Bonds and the listing and quotation of the Conversion Shares was not obtained or revoked for any reason; or
 - (b) if approval by shareholders of the Company for the issuance of the Convertible Bonds and the Conversion Shares and such other matter(s) required under the listing rules of the SGX-ST was not obtained at the general meeting of the Company convened to vote on such matters (after giving effect to all adjournments or postponements thereof).
- 9.3 Upon the notice being given pursuant to Sections 9.1 or 9.2:
 - (a) this Agreement shall terminate and be of no further effect, except for the provisions expressed to survive termination; provided however that the Company and the Investors shall remain liable for any liability arising prior to such termination; and
 - (b) the Company shall release and return, or procure the release and return, of the funds (if any) of each investor which were held in escrow pursuant to Section 11.2(b) of the Purchase Agreement.

APPENDIX 3 – ILLUSTRATION OF THE FINANCIAL EFFECTS OF THE BONDS ISSUE

The *pro forma* financial effects presented below are only for illustration purposes, and are not intended to reflect the actual future financial situation of the Company and/or the Group after completion of the Bonds Issue.

Assumptions

- (a) Conversion Price is at S\$0.090 per Share.
- (b) The Convertible Bonds in aggregate principal amount of S\$60 million are fully issued, and converted into Shares at the end of FY2014.
- (c) Issue expenses amount to approximately S\$700,000 (or approximately RMB 3,180,373).
- (d) Exchange Rate is RMB1.00 = S\$0.2201.
- (e) The equity and liability components of the Convertible Bonds are calculated based on valuation performed as at the Latest Practicable Date.

Share Capital

	The Company (31 December 2014)
Issued and paid up share capital (number of Shares)	681,600,000
Number of Conversion Shares from full conversion of Convertible Bonds	666,666,667
Enlarged share capital after full conversion of Convertible Bonds	1,348,266,667
Conversion Shares/ existing issued share capital	97.8
Conversion Shares/ enlarged issued share capital	49.4

Net Tangible Assets

	The Group (31 December 2014) (RMB '000)
<u>After issue of the Convertible Bonds but before conversion</u>	
NTA as reported	641,238
Estimated issue expenses	3,180
Adjusted net tangible assets after issue of Convertible Bonds but before conversion	638,058
Adjusted net tangible assets per Share after issue of Convertible Bonds but before conversion (Singapore Cents) ⁽¹⁾	20.60
<u>After full conversion of the Convertible Bonds</u>	
Increase in net tangible assets after full conversion of Convertible Bonds ⁽²⁾	272,603
Adjusted net tangible assets after full conversion of Convertible Bonds	910,661
Adjusted net tangible assets per Share after full conversion of Convertible Bonds (Singapore cents) ⁽³⁾	14.87

Notes:

- (1) Based on net tangible assets of approximately S\$140,436,000 and existing issued share capital of 681,600,000 Shares.
- (2) Based on the reduction of the principal amount of Convertible Bonds payable of approximately RMB 272,603,000 upon conversion of the Convertible Bonds into Shares.
- (3) Based on the adjusted net tangible assets of approximately S\$200,436,000 and issued share capital of 1,348,266,667 Shares upon full conversion of the Convertible Bonds.

Earnings

The interest expense in respect of the Convertible Bonds prior to any conversion will be at the aggregate of one per cent. (1%) interest payable each year and the amortisation of the fair value of the conversion rights recorded on the date of issue. However, it is not possible to quantify the effects of the issue of the Convertible Bonds on the earnings of the Group until the proceeds from the issue of the Convertible Bonds have been deployed.

Gearing

	The Group (31 December 2014 (RMB'000)
Net borrowings before issue of the Convertible Bonds(1)	(132,838)
Adjusted total net borrowings after issue of the Convertible Bonds(2)	(136,018)
Adjusted total net cash after conversion of the Convertible Bonds	136,585
Equity before issue of the Convertible Bonds	709,276
Adjusted equity after issue of the Convertible Bonds but before conversion(3)	706,096
Adjustment to equity after full conversion of the Convertible Bonds	272,603
Adjusted equity after conversion of the Convertible Bonds	981,879

Gearing (times)

Gearing before issue of the Convertible Bonds	0.19
Gearing after issue but before conversion of the Convertible Bonds	0.19
Gearing after conversion of the Convertible Bonds	net cash position

Notes:

- (1) Based on total bank borrowings of approximately RMB 499,630,000 less bank deposits pledged of approximately RMB 237,547,000 and cash and cash equivalents of approximately RMB 129,245,000 as at 31 December 2014.
- (2) Included the principal amount of Convertible Bonds payable of approximately RMB 272,603,000 less the net cash proceeds from the Bonds Issue of approximately RMB 269,423,000.
- (3) Adjusted for the estimated issue expense of approximately RMB 3,180,000 for the issue of the Convertible Bonds.

APPENDIX 4 – DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

	Number of Shares ⁽³⁾ (As at the Latest Practicable Date)				Number of Shares ⁽⁴⁾ (Assuming full conversion of the Convertible Bonds)			
	Direct Interest	%	Deemed Interest	Total Interest	Direct Interest	%	Deemed Interest	Total Interest
Directors								
Mr. Zhang Jingtang	–	–	–	–	–	–	–	–
Mr. Wang Laisheng ⁽¹⁾	–	–	193,114,000	193,114,000	–	–	193,114,000	193,114,000
Mr. Shen Zhifu	–	–	–	–	–	–	–	–
Mr. Yang Yong Jun ⁽²⁾	–	–	143,886,000	143,886,000	–	–	143,886,000	143,886,000
Mr. Sim Hong Boon	–	–	–	–	–	–	–	–
Mr. Zhang Shulin	–	–	–	–	–	–	–	–
Substantial Shareholders (other than Directors)								
Zoro Express ⁽¹⁾	193,114,000	28.33	–	193,114,000	193,114,000	14.32	–	193,114,000
Shine Sound ⁽²⁾	143,886,000	21.11	–	143,886,000	143,886,000	10.67	–	143,886,000
OCBC Securities Pte Ltd	38,045,000	5.58	–	38,045,000	38,045,000	2.82	–	38,045,000
Oriental Success	–	–	–	–	311,111,111	23.07	–	311,111,111
Brain International	–	–	–	–	355,555,556	26.37	–	355,555,556

Notes:

- (1) Mr. Wang Laisheng is deemed to have an interest in the 193,114,000 shares held by Zoro Express, by virtue of his approximately 35.22% beneficial interest in Zoro Express. He holds the remaining beneficial interests in Zoro Express for and on behalf of certain senior managers of the former Henan Tianhai Electric (Group) Corporation, a collective enterprise which has been restructure as a limited liability company and was indirectly acquired by the Company pursuant to the reverse takeover which was completed in September 2007.
- (2) Mr. Yang Yong Jun is deemed to have an interest in the 143,886,000 shares held by Shine Sound, by virtue of his voting control over the shares in Shine Sound. He holds the entire issued share capital in Shine Sound for and on behalf of certain representatives of the employees of the former Henan Tianhai Electric (Group) Corporation, a collective enterprise which has been restructured as a limited liability company and was indirectly acquired by the Company pursuant to the reverse takeover which was completed in September 2007.
- (3) Based on an issued share capital of 681,600,000 Shares. There are no treasury shares as at the Latest Practicable Date.
- (4) Based on an enlarged issued share capital of 1,348,266,667 Shares, assuming full conversion of the Convertible Bonds.

CHINA AUTO ELECTRONICS GROUP LIMITED

(Incorporated in Bermuda with limited liability on 8 October 2003)
(Company Registration Number 34300)

NOTICE OF SPECIAL GENERAL MEETING

Unless otherwise defined, all capitalised terms herein shall bear the same meanings as used in the circular dated 19 October 2015 issued by China Auto Electronics Group Limited.

NOTICE IS HEREBY GIVEN that a Special General Meeting (“**SGM**”) of China Auto Electronics Group Limited (“**Company**”) will be held on 3 November 2015, at Rasa Suites 1 & 2, Level 6, Shangri-La’s Rasa Sentosa Resort, 101 Siloso Road, Sentosa, Singapore 098970, at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without any modification, the following resolution:

AS SPECIAL BUSINESS

AS ORDINARY RESOLUTION – THE BONDS ISSUE

THAT approval be and is hereby given to the Directors (or any of them):

- (A) to create and issue an aggregate principal amount of S\$60 million convertible bonds due 2018 (the “**Convertible Bonds**”) to Oriental Success International Investment Ltd and Brain International Investment Ltd (collectively, the “**Investors**”), subject to the provisions of the Purchase Agreement dated 14 August 2015 between the Company and the Investors, such Convertible Bonds to be convertible, at the option of the Bondholders, into new ordinary shares in the capital of the Company (the “**Conversion Shares**”) at a conversion price (the “**Conversion Price**”) determined in accordance with the terms and conditions of the Convertible Bonds, and subject to such adjustments as the terms and conditions of the Convertible Bonds shall stipulate;
- (B) to allot and issue:
 - (i) such number of Conversion Shares as may be required or permitted to be allotted and issued on the conversion of the Convertible Bonds, to the Bondholders on the conversion thereof, subject to and otherwise in accordance with the terms and conditions of the Convertible Bonds, whereby such Conversion Shares when issued shall rank *pari passu* in all respects with the then existing ordinary shares in the capital of the Company, save as may be provided in the terms and conditions of the Convertible Bonds;
 - (ii) on the same basis as paragraph (B)(i) above, such further Conversion Shares as may be required to be allotted and issued on the conversion of any of the Convertible Bonds upon the adjustment of the Conversion Price in accordance with the terms and conditions of the Convertible Bonds; and
 - (iii) such number of Conversion Shares referred to in paragraphs (B)(i) and (B)(ii) above to the Investors and/or any Bondholder at the time of conversion;
- (C) to permit the potential transfer of a controlling interest in the Company arising from the issue of the Convertible Bonds, pursuant to Rule 803 of the Listing Manual; and
- (D) to take such steps, make such amendments to the terms and conditions of the Convertible Bonds (provided that the amendments are not material) and exercise such discretion as the Directors or any of them may from time to time deem fit, advisable, desirable, expedient or necessary in connection with all matters in connection with or arising from the Bonds Issue.

(See Explanatory Note 1)

BY ORDER OF THE BOARD
China Auto Electronics Group Limited

Zhang Jingtang
(Executive Chairman)
19 October 2015

Explanatory Note:

1. The ordinary resolution proposed in the Notice of SGM above, if passed, will empower the Directors to create and issue an aggregate principal amount of S\$60 million Convertible Bonds, and to allot and issue such number of Conversion Shares in the Company pursuant to the conversion of the Convertible Bonds (including such further Conversion Shares as may be required to be allotted and issued pursuant to adjustment of the Conversion Price), which may result in the potential transfer of a controlling interest in the Company.

Notes:

1. If a Shareholder is unable to attend the Special General Meeting and wishes to appoint a proxy to attend and vote at the Special General Meeting in his stead, then he should complete and sign the Member Proxy Form and deposit the duly completed Member Proxy Form at the registered office of the Company's share registrar, B.A.C.S. Private Limited, at 8 Robinson Road #03-00 ASO Building Singapore 048544 not less than 48 hours before the time fixed for the Special General Meeting.
2. A Depositor registered and holding Shares through The Central Depository (Pte) Limited ("CDP") who/which is (i) an individual but is unable to attend the Special General Meeting personally and wishes to appoint a nominee to attend and vote; or (ii) a corporation, must complete, sign and return the Depositor Proxy Form completed by CDP and deposit the duly completed Depositor Proxy Form at the registered office of the Company's share registrar, B.A.C.S. Private Limited, at 8 Robinson Road #03-00 ASO Building Singapore 048544 not less than 48 hours before the time fixed for the Special General Meeting.

A Depositor who is an individual and who wishes to attend the Special General Meeting in person is reminded that the proxy forms appointing themselves as proxies must similarly be deposited not less than 48 hours before the time fixed for the Special General Meeting in order for such persons to be able to attend and vote at the Special General Meeting.

Personal Data Privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the SGM and/or any adjournment thereof, a member of the Company: (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the SGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the SGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"); (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.