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

1. INTRODUCTION

The Board of Directors of China Auto Electronics Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) is pleased to announce that it has on 14 August 2015 entered into a conditional purchase agreement (the “**Purchase Agreement**”) with Oriental Success International Investment Ltd (“**Oriental Success**”) and Brain International Ltd (“**Brain International**”, together with Oriental Success, the “**Investors**”) for the proposed issue (the “**Bonds Issue**”) of S\$60 million in aggregate principal amount of unsecured convertible bonds due 2018 (the “**Convertible Bonds**”).

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) 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.
- (c) There is limited surplus funds which can be deployed towards the expansion of Group's business. Since listing, the Company has yet to raise funds from the capital markets, nor undertake any debt financing. The relatively low trading prices of the Shares (defined below), 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) 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 paragraph 7 below and in the Circular (defined below).

3. **SUMMARY OF THE BONDS ISSUE**

The Convertible Bonds are convertible, in accordance with their terms and conditions (the “**Conditions**”), into fully paid-up new ordinary shares (“**Shares**”) in the capital of the Company (the “**Conversion Shares**”), at an initial conversion price of S\$0.090 per Conversion Share (the “**Conversion Price**”), subject to adjustment in the manner provided in the Conditions.

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.

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 existing issued share capital of the Company as at the date of this announcement; and 49.4% of the issued share capital of the Company on a fully diluted basis.

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 will be made to the SGX-ST for the same.

4. **INFORMATION ON THE INVESTORS**

The Convertible Bonds will be subscribed for 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 Investors are investment holding companies incorporated in the British Virgin Islands.

Brain International

Brain International is 99% indirectly owned by Shanghai Zhen Tong Venture Investment Co., Ltd. (上海正同创业投资有限公司) (“**Shanghai Zhen Tong**”), a private equity fund principally based in Shanghai, the People’s Republic of China (“**PRC**”), with investments in a number of companies listed on the Shenzhen Stock Exchange. The ultimate substantial beneficial owners of Brain International are PRC nationals who are private investors and/or senior management of affiliates

of Shanghai Zhen Tong.

Oriental Success

Oriental Success is 99% indirectly owned by Shanghai Crystal Bridge Investment Management L.P. (上海晶桥投资管理合伙企业), a limited partnership registered in Shanghai, the PRC, whose registered business activities comprise industrial investments holding, advisory and management. The ultimate beneficial owners of Oriental Success are Mr. Qin Chuan (秦川) and Ms. Liu Li Li (刘莉莉), both of whom are principally in the business of investments and 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 Bond for investment purposes, and 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.

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, or any director or substantial shareholder of the Company other than as subscribers for the Convertible Bonds.

Each Investor has also warranted, *inter alia*, that it (and its affiliates, including ultimate beneficial owners) is independent from the other Investor and affiliates of the other Investor (including ultimate beneficial owners).

5. PRINCIPAL TERMS OF THE BONDS ISSUE

The principal terms and conditions of the Convertible Bonds are summarised as follows:

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, 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.

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

Maturity Date : Three (3) years from the issue date ("**Issue Date**") of the Convertible Bonds ("**Maturity Date**").

Notification	:	The Company shall, at least one (1) month before the Maturity Date, give notice to the Bondholders in accordance with Condition 14 (<i>Notices</i>) of the date of maturity of the 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. 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.
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 Securities and Futures Act, Chapter 289 of Singapore 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 <i>pari passu</i> 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 <i>pari passu</i> 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 stock splits, rights issues, cash or shares dividend or distributions, bonus issues or the occurrence of certain other dilutive events, further details to be set out in the 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 Early Redemption Market Price is at least 150% of the Conversion Price. “Early Redemption Amount” of a Convertible Bond shall be 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 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 Bond concerned, interest paid to the former holder(s) of such 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. “Early Redemption Market Price” means the volume-weighted average of the Closing Prices (as defined in the Conditions) for one (1) Share for the 20 consecutive market days ending on the market day immediately preceding the date on which notice of redemption is given.
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 will be set out in the Circular.

- Restrictive Covenants : 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):
- (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 in the Company 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 its shareholders.

6. **PRINCIPAL TERMS OF THE PURCHASE AGREEMENT**

The obligations of the Company and the Investors (the “**Parties**”) to proceed with the completion of the subscription and purchase of the Convertible Bonds in the manner contemplated under the Purchase Agreement is subject to various conditions precedent being satisfied (or waived) on or prior to the long-stop date of 31 December 2015 (“**Long-Stop Date**”).

If any of such conditions precedent 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 Parties shall remain liable for any liability arising prior to such termination.

7. **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 264,300,000) (“**Net Proceeds**”).

As at the date of this announcement, the Company intends to allocate the Net Proceeds in the following manner:

	Use of Proceeds	Amount Allocated (RMB)	Amount Allocated as a percentage of Net Proceeds (%)
(a)	Repayment of bank loans ⁽¹⁾	125,000,000	47.3
(b)	Business Expansion ⁽²⁾	122,600,000	46.4
(c)	General working capital	16,700,000	6.3

Notes:

- (1) Upon approval of the Bonds Issue, the Company intends to apply the allocated Net Proceeds to retire various bank loans in the PRC, particularly those involving cross or mutual guarantee arrangements, as and when these loans fall due.
- (2) The Group's business expansion efforts involve *inter alia* capital injections into various entities within the Group to undertake works to expand production lines, capacity and premises, purchase new machinery to supplement and/or replace existing machinery, and fund research and development efforts for technical improvements and developments to improve existing processes and products, as well as expand product range.

Further information on the intended use of the Net Proceeds will be set out in the Circular.

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 annual report.

8. **APPROVALS REQUIRED**

The Bonds Issue is conditional upon, *inter alia*, the approval in-principle of the SGX-ST for the listing and quotation of the Conversion Shares and the specific approval(s) from the shareholders of the Company pursuant to Rules 803 and 805 of the Listing Manual for the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares at an extraordinary general meeting to be convened.

Further information on the Bonds Issue (including the financial effects of the Bonds Issue) will be set out in the circular which will be despatched to shareholders in due course ("**Circular**").

9. **INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS**

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.

10. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the Purchase Agreement is available for inspection at the registered office of the Company's share registrar at 8 Robinson Road #03-00 ASO Building Singapore 048544 during normal business hours for a period of three (3) months from the date of this announcement.

The Company will make further announcements as and when there are material updates on the foregoing.

BY ORDER OF THE BOARD

ZHANG JINGTANG
Executive Chairman
14 August 2015