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Nexteer Automotive Group Limited

耐世特汽車系統集團有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 01316)

PROPOSED NOTES ISSUE

Reference is made to the announcement of the Company dated October 22, 2014.

The Company proposes to offer the Notes due 2021 in the aggregate principal amount of US\$250,000,000 to international investors. The completion of the Proposed Notes Issue is subject to market conditions and investors' interest. J.P. Morgan and BofA Merrill Lynch, as the joint lead managers and joint bookrunners, are managing the Proposed Notes Issue.

If the Notes are issued, the net proceeds of the Proposed Notes Issue (after deducting underwriting commissions and estimated offering expenses) are intended to be used for capital expenditures with the remaining balance for general corporate purposes, including refinancing outstanding indebtedness in order to enhance the liquidity position of the Company.

Application has been made to the Stock Exchange for listing of, and permission to deal in, the Notes by way of debt issue to professional investors only. Listing of the Notes on the Stock Exchange is not to be taken as an indication of the merits of the Notes or the Company.

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialize. The completion of the Proposed Notes Issue is subject to market conditions and investors' interest. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

Further announcements in respect of the Proposed Notes Issue will be made by the Company should the purchase agreement in respect of the Proposed Notes Issue be signed or as and when necessary.

THE PROPOSED NOTES ISSUE

Introduction

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The Proposed Notes Issue will only be offered in Hong Kong to professional investors, in the United States in reliance on Rule 144A of the Securities Act to qualified institutional buyers, and outside the United States in compliance with Regulation S under the Securities Act. None of the Notes will be offered to the public in Hong Kong and none of the Notes will be placed to any connected persons of the Company.

Use of Proceeds of the Notes

If the Notes are issued, the net proceeds of the Proposed Notes Issue (after deducting underwriting commissions and estimated offering expenses) are intended to be used for capital expenditures with the remaining balance for general corporate purposes, including refinancing outstanding indebtedness in order to enhance the liquidity position of the Company.

Listing

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GENERAL

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UPDATED INFORMATION OF THE GROUP

Overview

The Group is among the world's leading steering and driveline suppliers. In 2013, it was the fifth-largest steering supplier globally in terms of revenue, with approximately 6.8% of total global market share, the largest steering supplier and EPS manufacturer in the United States with approximately 31.1% and 21.5% of total U.S. market share, respectively. The Group was also the third-largest halfshafts supplier globally with approximately 4.6% of total global market share, according to the report prepared by Ipsos Business Consultancy (the "**IPSOS Report**"). The deep understanding of system integration and technical expertise of the Group enables it to offer its customers a comprehensive product portfolio and integrated customer solutions in both steering and driveline systems. The principal products of the Group are: (i) steering systems and components that include EPS, HPS and steering columns; and (ii) driveline systems and components that include halfshafts, intermediate drive shafts and propeller shaft joints. The products of the Group are utilized on a broad range of vehicles from small passenger cars to full-size trucks.

The Group had an established global footprint. As of June 30, 2014, the Group had 20 manufacturing plants, nine customer service centers and five regional application engineering centers located in North and South America, Europe and Asia in close proximity to many of the world's largest automotive vehicle markets. This enables the Group to respond timely to business opportunities and to establish and maintain close relationships with global OEMs, as well as local OEMs in regional markets, and provide its customers with regional and customer-specific design, application and technical capabilities.

The Group has established strong relationships with many of the world's leading OEMs by offering high-quality products and customer service at competitive prices. The Group currently supplies its products to more than 50 customers, including substantially all of the world's top 12 major OEMs in terms of production volume in 2013. Through the years, the Group has diversified its customer base and, as of June 30, 2014, its global customers included GM, Fiat Chrysler, Ford, PSA Peugeot Citroën, BMW and Volkswagen, as well as local OEMs in regional markets such as China and India. The Group had supplied its products to its largest customer, GM, for over 100 years, and has supplied its next two largest customers for more than 30 years.

The business of the Group has a global presence. In the six months ended June 30, 2014, 69.9% of the revenues of the Group were from North America, 13.3% were from Europe, 12.8% were from China and 4.0% were from the rest of the world, respectively. One of the key strategies of the Group for growth is to increase its market share in China and other emerging markets, which have experienced rapid growth in both vehicle sales and the adoption of EPS in recent years. In particular, since the Group became a subsidiary of AVIC, it has increased its focus on opportunities in China. Through its global presence, technological expertise in EPS and strong relationships with customers, it is believed that the Group is well-positioned to capitalize on its future growth in these emerging markets.

The Group has accumulated extensive technical knowledge and developed a high degree of technical expertise through its 100-year history as a steering products and driveline products supplier, with a consistent focus on research and development. The research and development team consists of approximately 972 engineers, designers and technicians worldwide, and the Group has a core team of over 30 engineers who focus on early-stage product development. At the systems engineering center in Saginaw, Michigan, United States, the acoustics and vibration center provides full vehicle, multiple system and component testing facilities, including advanced hemianechoic chambers. The testing facilities of the Group allow it to solve complex NVH problems and develop product designs that can be tailored for regional application. The Group also has its own comprehensive vehicle evaluation test track for product development and customer product evaluation. In addition, the Group operates a global network of nine customer service centers and five regional application engineering centers that provide its customers with regional and customer-specific design, application and technical capabilities. As of June 30, 2014, the Group had nearly 950 granted patents and nearly 350 pending patent applications.

The advanced technology of the Group is demonstrated by its strong technical expertise in the field of EPS, which is widely considered a pioneering and industry-leading technology. Due to increasingly stringent government fuel efficiency, emissions and safety regulations, OEMs have increased demand for EPS to replace conventional HPS. According to the IPSOS Report, EPS grew the fastest among all product types at a CAGR of approximately 9.2% in terms of sales revenue from US\$10,198 million in 2007 to US\$17,277 million in 2013, compared to a total market CAGR of approximately 3.5% for the same period. According to the IPSOS Report, the EPS global market by sales revenue is forecasted to grow at a CAGR of approximately 9.2% from 2013 to 2018, compared to a total market CAGR of approximately 4.7% for the same period. The market share of EPS increased from 44.6% in 2007 to 61.4% of the total steering industry in 2013 in terms of sales revenue and is expected to account for a market share of approximately 76.1% of the total steering industry by 2018, according to the IPSOS Report.

The Group maintains direct control over the design of both hardware and software, including conducting all electronic and software development in-house, during the production process. Since EPS systems include highly customized software algorithms that control the operation of the steering system, the system integration of the Group allows it to customize its products to address specific customer requirements and respond to customer needs quickly and accurately. As a result, it is believed that the Group is among the technology leaders in the EPS field and is well-positioned to capture future growth in the global EPS market.

For the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, the revenue of the Group was US\$2,247.8 million, US\$2,167.8 million, US\$2,386.8 million, US\$1,164.8 million and US\$1,434.4 million, respectively. The following table sets forth revenue by product lines for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,				
	2011		2012		2013		2013		2014		
	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%	(US\$ thousands)	%	
Steering											
EPS	762,967	33.9	764,937	35.3	1,084,612	45.4	494,430	42.4	783,852	54.6	
HPS	540,396	24.0	447,314	20.6	319,928	13.4	198,942	17.1	92,754	6.5	
Steering Column (CIS)	500,193	22.3	481,827	22.2	512,539	21.5	243,402	20.9	293,574	20.5	
Driveline											
Driveline	444,196	19.8	473,724	21.9	469,744	19.7	228,041	19.6	264,192	18.4	
Total	2,247,752	100.0	2,167,802	100.0	2,386,823	100.0	1,164,815	100.0	1,434,372	100.0	

As of June 30, 2014, the estimated value of the pipeline of all booked business which are under contracts that have been awarded to the Group, but which have not yet begun production amounted to approximately US\$9.0 billion, among which, EPS, halfshaft and steering column accounted for approximately 72.2%, 20.0% and 7.8%, respectively.

Production Volume, Production Capacity and Utilization

The following table sets forth the production volume, production capacity and utilization rate for the specified products of the Group for the periods indicated:

Products	For the Year Ended December 31, 2011			For the Year Ended December 31, 2012			For the Year Ended December 31, 2013			For the Six Months Ended June 30, 2014		
	Volume ⁽¹⁾	Capacity ⁽³⁾	Utilization	Volume ⁽¹⁾	Capacity ⁽³⁾	Utilization	Volume ⁽¹⁾	Capacity ⁽³⁾	Utilization	Volume ⁽¹⁾	Capacity ⁽³⁾	Utilization
			Rate ⁽⁴⁾			Rate ⁽⁴⁾			Rate ⁽⁴⁾			Rate ⁽⁴⁾
	(thousand units)		(%)	(thousand units)		(%)	(thousand units)		(%)	(thousand units)		(%)
EPS	2,682	3,428	78%	2,680	3,639	74%	3,272	4,483	73%	2,399	2,946	81%
HPS												
Gears	2,826	4,763	59%	1,835	3,888	47%	1,445	2,492	58%	387	779	50%
Pumps	3,741	5,392	69%	3,565	5,002	71%	2,496	4,062	61%	814	1,689	48%
Steering Columns	3,727	8,957	42%	3,463	5,643	61%	3,281	4,935	66%	1,782	2,488	72%
Halfshafts	8,018	10,000	80%	8,694	10,219	85%	8,788	11,109	79%	4,992	5,536	90%

Notes:

- (1) The production volume of all categories of a product is aggregated to arrive at the product volume for the product.
- (2) The capacity is calculated by using reusable capacity, which excludes legacy equipment related to older generation products that are not usable for new customers or projects. Legacy equipment is considered not usable if the cost of upgrading the equipment for reuse would require investment of over 50% of the cost of purchasing new equipment. Capacity represents weighted average of reusable capacity available by product line. Reusable capacity is calculated assuming five working days a week, three shifts for machining and two shifts for assembly.
- (3) Utilization rate is calculated based on the units of products produced compared to the capacity of the total existing facilities of the Group.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following expressions have the following meanings:

“AVIC”	中國航空工業集團公司 (Aviation Industry Corporation of China*), a state-owned limited liability company established in the PRC on November 6, 2008, one of the controlling shareholders of the Company
“Board”	the board of Directors
“BofA Merrill Lynch”	Merrill Lynch, Pierce, Fenner & Smith Incorporated, a bookrunner and lead manager in respect of the Proposed Notes Issue
“CAGR”	compound annual growth rate
“Company”	Nexteer Automotive Group Limited (耐世特汽車系統集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto in the Rules Governing the Listing of Securities on The Exchange of Hong Kong Limited
“Director(s)”	the directors, including the non-executive directors, of the Company
“EPS”	electric power steering, which uses an electric motor to assist driver steering
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“HPS”	hydraulic power steering, which uses high pressure fluids to assist driver steering
“J.P. Morgan”	J.P. Morgan Securities LLC, a bookrunner and lead manager in respect of the Proposed Notes Issue
“Notes”	the notes expected to be issued by the Company due 2021 in the aggregate principal amount of US\$250,000,000
“NVH”	noise, vibration and harshness, the study and modification of the noise and vibration characteristics of vehicles, particularly cars and trucks
“OEM(s)”	original equipment manufacturer(s), generally referring to large automotive manufacturers that use OEM components in the production of cars, which is in line with standard industry practice
“Proposed Notes Issue”	the proposed issue of the Notes
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“U.S.” or “United States”	the United States of America, its territories and possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended

* denotes an English translation of a Chinese name

By Order of the Board
Nexteer Automotive Group Limited
Guibin ZHAO
Chairman

Hong Kong, November 3, 2014

As at the date of this announcement, the Company’s executive Directors are Mr. Guibin ZHAO, Mr. Michael Paul RICHARDSON and Mr. Yi FAN, the non-executive Directors are Mr. Daen LU and Mr. Xiaobo WANG, and the independent non-executive Directors are Mr. Hing Lun TSANG, Mr. Jianjun LIU and Mr. Kevin Cheng WEI.