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POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新晨中國動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

**CONTINUING CONNECTED TRANSACTIONS
FRAMEWORK AGREEMENT
IN RESPECT OF LEASE OF PRODUCTION FACILITIES,
PROCUREMENT OF MATERIALS AND USE OF TECHNOLOGY**

The Board announces that on 28 May 2013 (after trading hours), Mianyang Xincheng, an indirect wholly-owned subsidiary of the Company, and Huachen, which owns 42.48% of Brilliance China, a Controlling Shareholder, entered into the Framework Agreement pursuant to which Huachen has agreed to (i) lease the Production Facilities and supply the relevant human resources to; (ii) procure supporting production materials for and supply such basic utilities as water, electricity, gas, heating and communications to; and (iii) allow the use of the Production Technology by Mianyang Xincheng for the production of the Product; and Mianyang Xincheng has agreed to supply the Product to Shenyang Brilliance Power, a subsidiary of Huachen. Pursuant to the Framework Agreement, the parties, on the same day, entered into the following individual agreements in relation to the transactions contemplated under the Framework Agreement:

- (1) the Lease Agreement pursuant to which Huachen has agreed to lease the Production Facilities to Mianyang Xincheng at a rental of RMB15,182,400 (equivalent to approximately HK\$19,372,742) per year;
- (2) the Materials Procurement Agreement pursuant to which Huachen has agreed to procure supporting production materials for and supply such basic utilities as water, electricity, gas, heating and communications to Mianyang Xincheng; and
- (3) the Use of Technology Agreement pursuant to which Huachen has agreed to allow Mianyang Xincheng to use the Production Technology for the production of the Product free of charge on an exclusive basis.

As at the date of this announcement, Huachen owns 42.48% of Brilliance China which is interested in 31.07% shareholding interests of the Company and a Controlling Shareholder. Huachen is deemed as a connected person of the Company under Rule 14A.06 of the Listing Rules by the Stock Exchange. Accordingly, the transactions contemplated under the CCT Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios in respect of the proposed annual caps of the continuing connected transactions contemplated under the Framework Agreement are less than 5%, the CCT Agreements are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but exempted from Independent Shareholders' approval requirement.

CCT AGREEMENTS

The Board announces that on 28 May 2013 (after trading hours), Mianyang Xincheng, an indirect wholly-owned subsidiary of the Company, and Huachen entered into the Framework Agreement, the Lease Agreement, the Materials Procurement Agreement and the Use of Technology Agreement in relation to the production of the Product.

FRAMEWORK AGREEMENT

Date

28 May 2013 (after trading hours)

Parties

- (1) Mianyang Xincheng; and
- (2) Huachen

As at the date of this announcement, Huachen owns 42.48% of Brilliance China which is interested in 31.07% shareholding interests of the Company and a Controlling Shareholder. Huachen is deemed as a connected person of the Company under Rule 14A.06 of the Listing Rules by the Stock Exchange.

Major Terms

The Framework Agreement is a master agreement which sets out the principles of the transactions contemplated thereunder. Pursuant to the Framework Agreement, the parties entered into the Lease Agreement, the Materials Procurement Agreement and the Use of Technology Agreement in relation to the transactions contemplated under the Framework Agreement. Please refer to the sections headed "Lease Agreement", "Materials Procurement Agreement" and "Use of Technology Agreement" below for further information.

Pursuant to the Framework Agreement, Huachen has agreed to (i) lease the Production Facilities and supply the relevant human resources to; (ii) procure supporting production materials, including auxiliary materials and office supplies, for and supply such basic utilities as water, electricity, gas, heating and communications to; and (iii) allow the use of the Production Technology by Mianyang Xincheng for the production of the Product. Mianyang Xincheng has agreed to supply the Product to Shenyang Brilliance Power, a subsidiary of Huachen.

Pursuant to the Framework Agreement, Mianyang Xincheng shall reimburse to Huachen for the remuneration of the relevant human resources supplied by Huachen in relation to the Production Facilities upon receipt of invoice(s) issued by Huachen on a monthly basis. Mianyang Xincheng shall also pay for the relevant applicable tax.

The continuing connected transactions contemplated under the Framework Agreement shall take effect from the respective effective date of the Lease Agreement, the Materials Procurement Agreement and the Use of Technology Agreement, to 31 December 2015 or such other dates as agreed between the parties.

Proposed annual caps

The following table sets out the proposed annual caps of the continuing connected transactions contemplated under the Framework Agreement for the three financial years ending 31 December 2013, 2014 and 2015:

Continuing connected transactions	Proposed annual caps for the years ending 31 December		
	2013 (RMB)	2014 (RMB)	2015 (RMB)
Lease of the Production Facilities	8,856,400	15,182,400	15,182,400
Supply of relevant human resources	8,620,080	15,959,462	18,877,764
Procurement of supporting production materials (including auxiliary materials and office supplies)	4,620,000	8,800,000	9,900,000
Supply of water, electricity, gas, heating and communications	2,184,000	4,160,000	4,680,000
Total	24,280,480 (equivalent to approximately <u>HK\$30,981,892</u>)	44,101,862 (equivalent to approximately <u>HK\$56,273,976</u>)	48,640,164 (equivalent to approximately <u>HK\$62,064,849</u>)

Pursuant to the Framework Agreement, Mianyang Xincheng has agreed to supply the Product to Shenyang Brilliance Power, a subsidiary of Huachen. The annual caps of such continuing connection transaction have been included in the continuing connected transactions with Huachen Group which was disclosed in the Prospectus.

Basis in determining the proposed annual caps

In determining the proposed annual caps in respect of the continuing connected transactions contemplated under the Framework Agreement, the Board has taken into account, among others,

- (i) the rental for the Production Facilities has been determined based on the annual depreciation amount, being the annual depreciation recognised in Huachen's book and records under relevant accounting standards in the PRC, plus 3% thereon and include applicable taxes and levies in connection with the lease;
- (ii) the quantity of supporting production materials to be procured as set out in the Materials Procurement Agreement, the expected unit prices of supporting production materials to be procured, and a buffer to cater for price fluctuations of supporting production materials, inflation and foreign exchange rate;
- (iii) expected cost (including salary, pension and medical insurance) of the relevant human resources;
- (iv) expected cost of the use of water, electricity, gas, heating and communications; and
- (v) projected need for the Product commensurate with future business growth.

Note: the proposed annual caps for (ii), (iii) and (iv) above have been calculated based on the expected quantity of 72,000 engines in 2013 and the expected quantity of 60,000 engines from 1 June 2013 to 31 December 2013, with a year-on-year increase of 11% in 2014 and a year-on-year increase of 12% in 2015

The pricing policy for the continuing connected transactions contemplated under the Framework Agreement has been determined based on normal commercial terms which are no less favourable than the terms which can be obtained by Mianyang Xincheng from independent third parties for the provision of similar services and products. Pricing has been agreed upon between the parties for each transaction by reference to the aforementioned pricing policy through arm's length negotiations.

Pursuant to the Framework Agreement, Mianyang Xincheng and Huachen entered into the Lease Agreement, the Materials Procurement Agreement and the Use of Technology Agreement respectively in relation to the transactions contemplated under the Framework Agreement.

LEASE AGREEMENT

Date

28 May 2013 (after trading hours) and after the signing of the Framework Agreement

Parties

- (1) Mianyang Xincheng; and
- (2) Huachen

Term

The Lease Agreement shall take effect on the date when the Production Facilities are transferred to Mianyang Xincheng for operation, which shall be within five days from the date of the Lease Agreement (or such other date as agreed by the parties), and, subject to the right of both parties to terminate in accordance with the Lease Agreement, expire on (and including) 31 December 2015. Mianyang Xincheng may, with the approval by Huachen, renew the term of the Lease Agreement by three months written notice to Huachen prior to the expiry of the Lease Agreement or terminate the Lease Agreement by three months' prior written notice to Huachen.

Pursuant to the Lease Agreement, if Huachen intends to sell the Production Facilities during the term of the Lease Agreement, Huachen shall give Mianyang Xincheng three months' prior written notice and Mianyang Xincheng has the right of first refusal to purchase the Production Facilities.

Nature of Transactions

Pursuant to the Lease Agreement, Huachen has agreed to lease the Production Facilities to Mianyang Xincheng for the production of the Product.

Consideration

The rental for the Production Facilities to Mianyang Xincheng is RMB15,182,400 (equivalent to approximately HK\$19,372,742) per year. The rental for first month in the amount of RMB1,265,200 (equivalent to approximately HK\$1,614,395) shall be paid by Mianyang Xincheng to Huachen within ten days upon signing of the Lease Agreement and thereafter, rental shall be payable by 5th of each calendar month in advance.

MATERIALS PROCUREMENT AGREEMENT

Date

28 May 2013 (after trading hours) and after the signing of the Framework Agreement

Parties

- (1) Mianyang Xincheng; and
- (2) Huachen

Term

The Materials Procurement Agreement takes effect from 28 May 2013 and expires on (and including) 31 December 2015. The term can be extended by the parties in writing.

Nature of Transactions

Pursuant to the Materials Procurement Agreement, Huachen has agreed to procure supporting production materials, including auxiliary materials and office supplies, for and supply such basic utilities as water, electricity, gas, heating and communications to Mianyang Xincheng in the Production Facilities in relation to the production of the Products.

Payment

Mianyang Xincheng shall pay for the supporting production materials procured by Huachen and the use of such basic utilities as water, electricity, gas, heating and communications to Huachen on cost basis within five business days upon receipt of invoice(s) issued by Huachen to Mianyang Xincheng.

USE OF TECHNOLOGY AGREEMENT

Date

28 May 2013 (after trading hours) and after the signing of the Framework Agreement

Parties

(3) Mianyang Xincheng; and

(4) Huachen

Term

The Use of Technology Agreement takes effect from 28 May 2013 and expires on (and including) 31 December 2015.

Nature of Transactions

Pursuant to the Use of Technology Agreement, Huachen has agreed to allow Mianyang Xincheng to use the Production Technology for the production of the Product free of charge on an exclusive basis.

REASONS FOR AND BENEFIT OF ENTERING INTO THE CCT AGREEMENTS

The Group is principally engaged in the manufacture of automotive engine of the passenger vehicles and light commercial vehicles; and development, manufacture and sale of light-duty gasoline and diesel engines.

Huachen is a state-owned limited liability company which was established under the PRC laws and is beneficially wholly-owned by the People's Government of Liaoning Province of the PRC. The principal activities of the Huachen Group include but not limited to investment holding, and manufacture and sale of Zhonghua (「中華」) branded sedans.

As set out in the Prospectus, the Company plans to increase its production capacity and upgrade existing production machineries and equipment by constructing new production facilities to meet the increasing demand for its products. One of the Group's major customers requires more engines than originally forecasted. To enable the Group to increase its production facilities immediately, and in line with the Company's plan to build new manufacturing facilities in closer geographic proximity to its customers to shorten the delivery time of products to them and to save logistic cost, the Company decided to enter into the CCT Agreements. The entering into of the CCT Agreements enables the Group to manufacture products sold to Shenyang Brilliance Power in Shenyang, the PRC where the Production Facilities are located. This will also free up the capacity in other production facilities of the Group in Mianyang to meet the immediate increased demand of its customers.

The Directors (including the independent non-executive Directors) considered that entering into the CCT Agreements will allow the Group to be able to meet the increasing demand of its product and to diversify its production base to serve its customers better, taking the geographical advantage. The Directors (including the independent non-executive Directors) considered that it is for the Group's benefit to enter into the CCT Agreements.

Mr. Wu Xiao An, an executive Director, is also the chairman and an executive director of Brilliance China; and Mr. Qi Yumin, a non-executive Director, is also the chairman and president of Huachen. Accordingly, Mr. Wu Xiao An and Mr. Qi Yumin had abstained from voting at the Board resolutions in respect of the CCT Agreements and the transactions contemplated thereunder. The Board confirms that except for Mr. Wu Xiao An and Mr. Qi Yumin, none of the other Directors has any material interest in the CCT Agreements and the transactions contemplated thereunder. Accordingly, none of the other Directors, except for Mr. Wu Xiao An and Mr. Qi Yumin, was required to abstain from voting on the Board resolutions in relation to the CCT Agreements and the transactions contemplated thereunder.

The Directors (including the independent non-executive Directors and except for Mr. Wu Xiao An and Mr. Qi Yumin who had abstained from voting at the Board resolutions approving the CCT Agreements and the transactions contemplated thereunder due to the reasons stated above) considered that the CCT Agreements and the transactions contemplated thereunder were entered into in the ordinary course of business of the Group and on normal commercial terms, and the terms and conditions therein (including the proposed annual caps in respect of the continuing connected transactions contemplated under the Framework Agreement) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Huachen owns 42.48% of Brilliance China which is interested in 31.07% shareholding interests of the Company and a Controlling Shareholder. Huachen is deemed as a connected person of the Company under Rule 14A.06 of the Listing Rules by the Stock Exchange. Accordingly, the transactions contemplated under the CCT Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios in respect of the proposed annual caps of the continuing connected transactions contemplated under the Framework Agreement are less than 5%, the CCT Agreements are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but exempted from Independent Shareholders' approval requirement.

DEFINITIONS

In the announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Brilliance China”	Brilliance China Automotive Holdings Limited (華晨中國汽車控股有限公司*), a company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange, and is a Controlling Shareholder
“CCT Agreements”	the Framework Agreement, the Lease Agreement, the Materials Procurement Agreement and the Use of Technology Agreement
“Company”	Xinchen China Power Holdings Limited (新晨中國動力控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“Framework Agreement”	the framework agreement dated 28 May 2013 entered into between Mianyang Xinchen and Huachen pursuant to which Huachen has agreed to (i) lease the Production Facilities and supply the relevant human resources to; (ii) procure supporting production materials for and supply such basic utilities as water, electricity, gas, heating and communications to; and (iii) allow the use of the Production Technology by Mianyang Xinchen; and Mianyang Xinchen has agreed to supply the Product to Shenyang Brilliance Power, a subsidiary of Huachen
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Huachen”	Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司), a state-owned company incorporated in the PRC and a Controlling Shareholder of Brilliance China
“Huachen Group”	Huachen and its subsidiaries
“Independent Shareholder(s)”	Shareholder(s) other than Huachen and Brilliance China and their respective associates
“Lease Agreement”	the lease agreement dated 28 May 2013 entered into between Mianyang Xincheng and Huachen in relation to the lease of the Production Facilities
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Materials Procurement Agreement”	the materials procurement agreement dated 28 May 2013 entered into between Mianyang Xincheng and Huachen in relation to the procurement of supporting production materials and the supply of such basic utilities as water, electricity, gas, heating and communications
“Mianyang Xincheng”	Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
“PRC”	The People’s Republic of China
“Product”	BM15 engine and BM15T engine to be produced under the Production Facilities
“Production Facilities”	E3 engine production lines in E2 factory located in No. 12, the 8 Road, Economic and Technological Development Zone, Shenyang, PRC, with a total area of 64,800 square meters
“Production Technology”	the technology related to the production of the Product
“Prospectus”	the prospectus of the Company dated 28 February 2013 in respect of its global offering
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company

“Shareholder(s)”	holder(s) of the Share(s)
“Shenyang Brilliance Power”	Shenyang Brilliance Power Train Machinery Co., Ltd.* (瀋陽華晨動力機械有限公司), a company established in the PRC and owned as to 51% by Huachen and 49% by Brilliance China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Use of Technology Agreement”	the use of technology agreement dated 28 May 2013 entered into between Mianyang Xincheng and Huachen in relation to the use of the Production Technology by Mianyang Xincheng
“%”	per cent

* *for identification purposes only*

By order of the Board
Xincheng China Power Holdings Limited
Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong, 28 May 2013

For the purposes of illustration only, any amount denominated in RMB in this announcement and translated into HK\$ was translated at the rate of RMB1 = HK\$1.276. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.

As at the date of this announcement, the Board comprises two executive Directors, Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Chairman) and Mr. Wang Yunxian (Chief Executive Officer); two non-executive Directors, Mr. Qi Yumin and Mr. Li Peiqi; and four independent non-executive Directors, Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin.