THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Xinchen China Power Holdings Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF PRODUCTION LINES AND INVENTORIES

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

八方金融有限公司
OCTAL Capital Limited

A letter from the Board is set out on pages 6 to 13 of this circular. A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from Octal Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 27 of this circular.

A notice convening the EGM to be held at Victoria I, Second Floor, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Thursday, 16 January 2014 at 9:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you wish.

31 December 2013

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DEFINITIONS

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

"Acquisition"	the purchase by Mianyang Xinchen and the sale by Huachen of the Production Lines and the Inventories subject to and in accordance with the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the agreement entered into between Mianyang Xinchen and Huachen dated 25 November 2013 in relation to the sale and purchase of the Production Lines and the Inventories subject to and on the terms thereof
"associated corporation"	has the meaning ascribed thereto in the SFO
"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 a controlling shareholder of the Company
"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
"Completion"	the transfer of the Production Lines and the Inventories pursuant to Clause 3.1 of the Acquisition Agreement
"Conditions"	the conditions precedent to Acquisition as set out in Clause 9.1 of the Acquisition Agreement
"connected person"	has the meaning ascribed thereto in the Listing Rules
"Consideration"	the consideration for the Acquisition as set out in Clause 2.1 of the Acquisition Agreement

"controlled corporation"	has the meaning ascribed thereto in the SFO
"controlling shareholder"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	director(s) of the Company
"E2 Factory"	the factory located at No. 12, the 8 Road, Economic and Technological Development Zone, Shenyang, PRC
"EGM"	the extraordinary general meeting of the Company to be convened and held on Thursday, 16 January 2014, including any adjournment thereof
"Framework Agreement"	the framework agreement dated 28 May 2013 entered into between Mianyang Xinchen and Huachen pursuant to which the parties entered into the Lease Agreement, the Materials Procurement Agreement and other related agreements
"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
"Incentive Scheme"	an incentive scheme established by the Company in 2011 before the global offering of the Shares which serves as a retention tool and to align the interests of certain Directors, management, employees and the relevant personnel of the Group
"Independent Board Committee"	the independent committee of the Board comprising all the independent non-executive Directors, being Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin

"Independent Financial Adviser"	Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
"Independent Valuer"	Beijing Zhuoxindahua Appraisal Co., Ltd.*（北京卓信大華資產評估有限公司）, an independent PRC valuer qualified to carry out valuations in the PRC
"Independent Shareholder(s)"	Shareholder(s) other than Brilliance China and its associates
"Inventories"	inventories primarily comprising some auxiliary materials, cutting tools, the parts and components of E3 engines, a small amount of E3 finished products, the roughcasts of connection rod and some finished connection rod products
"LCVs" or "light commercial vehicles"	light commercial vehicles that are mainly used for carrying passengers or commercial goods, including small truck, light-duty truck and small bus
"Latest Practicable Date"	Tuesday, 24 December 2013, being the latest practicable date prior to the printing of this circular, for ascertaining certain information for inclusion in this circular
"Lead In"	Lead In Management Limited（領進管理有限公司）, a company incorporated on 18 May 2011 in the BVI and owned as to 50% by Mr. Wu Xiao An and 50% by Mr. Wang Yunxian, both of whom are the executive Directors
"Lease Agreement"	the lease agreement dated 28 May 2013 entered into between Mianyang Xinchen and Huachen in relation to the lease of the E3 engine production lines, part of the E2 Factory and other related assets

"Liaoning SASAC"	State-owned Assets Supervision and Administration Commission of Liaoning Provincial Government of the PRC*（遼寧省人民政府國有資產監督管理委員會）
"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 Xinchen and Huachen in relation to the procurement of supporting production materials and the supply of basic utilities such as water, electricity, gas, heating and communications
"Mianyang Xinchen"	Mianyang Xinchen 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
"New Lease Agreement"	the lease agreement dated 16 December 2013 entered into between Mianyang Xinchen and Shenyang Brilliance Power in relation to the lease of space primarily for accommodating the Production Lines
"PRC"	The People's Republic of China
"Production Lines"	the E3 engine production lines and the connection rod production lines located in the E2 Factory
"Prospectus"	the prospectus of the Company dated 28 February 2013 in respect of the global offering of the Shares on the Main Board of the Stock Exchange
"PVs" or "passenger vehicles"	passenger vehicles which are mainly used for transporting passengers with maximum nine passengers
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)

"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 incorporated in the PRC which is 51% and 49% owned by Huachen and Brilliance China respectively
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed thereto in the Listing Rules
"substantial shareholder"	has the meaning ascribed thereto in the SFO
"VAT"	value-added-tax
"%"	per cent

* *for identification purposes only*

For the purposes of illustration only, any amount denominated in RMB in this circular and translated into HK$ was translated at the rate of RMB1 = HK$1.2675. 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.

POWER XINCHEN
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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)

Executive Directors:
Mr. Wu Xiao An
(also known as Mr. Ng Siu On) *(Chairman)*
Mr. Wang Yunxian *(Chief Executive Officer)*

Non-executive Directors:
Mr. Qi Yumin
Mr. Li Peiqi

Independent Non-executive Directors:
Mr. Chi Guohua
Mr. Wang Jun
Mr. Huang Haibo
Mr. Wang Songlin

Registered office:
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Principal place of business in Hong Kong:
Suites 1602-05
Chater House
8 Connaught Road Central
Hong Kong

31 December 2013

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF PRODUCTION LINES AND INVENTORIES

INTRODUCTION

On 25 November 2013, Mianyang Xinchen, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Huachen, a deemed connected person of the Company, pursuant to which Mianyang Xinchen agreed to purchase and Huachen agreed to sell the Production Lines and the Inventories for a Consideration of RMB451,423,200 (equivalent to approximately HK$572,178,906).

The purpose of this circular is to provide you with details of the above Acquisition, to set out the recommendation of the Independent Board Committee and to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

KEY TERMS OF THE ACQUISITION AGREEMENT

On 25 November 2013 (after trading hours), Huachen and Mianyang Xinchen entered into the Acquisition Agreement pursuant to which Mianyang Xinchen agreed to purchase and Huachen agreed to sell the Production Lines and the Inventories.

Parties

(1) Huachen, as the seller; and

(2) Mianyang Xinchen, as the purchaser.

Assets to be acquired

(1) The Production Lines consisting of the E3 engine production lines and the connection rod production lines in the E2 Factory located in No. 12, the 8 Road, Economic and Technological Development Zone, Shenyang, PRC; and

(2) The Inventories primarily comprising some auxiliary materials, cutting tools, the parts and components of E3 engines, a small amount of E3 finished products, the roughcasts of connection rod and some finished connection rod products.

Consideration

The Consideration for the Acquisition is RMB451,423,200 (equivalent to approximately HK$572,178,906), comprising consideration in respect of the Production Lines of RMB299,813,000 (equivalent to approximately HK$380,012,978) and Inventories of RMB86,018,800 (equivalent to approximately HK$109,028,829), both VAT exclusive, and corresponding VAT of RMB50,968,200 and RMB14,623,200 respectively. Part of the Consideration in the amount of approximately RMB200,000,000 (equivalent to approximately HK$253,500,000) will be settled in cash or cash equivalents out of bank deposits. The balance of the Consideration will be settled by setting off accounts receivables due from Huachen or its subsidiaries.

The assets the subject of the Acquisition include Inventories, which may increase or decrease in the course of normal operations of the Production Lines. If the value of the assets delivered from Huachen to Mianyang Xinchen at Completion changes from the value at signing of the Acquisition Agreement, the Consideration will be adjusted accordingly based on the book values of the relevant assets as disclosed in the valuation report (the original text is in Chinese) which is set out in Appendix I of this circular, multiplied by the difference in the amount of Inventories between signing of the Acquisition Agreement and Completion.

The Consideration was determined after arm's length negotiations between Huachen and Mianyang Xinchen, with reference primarily to the final valuation of the Production Lines and the Inventories prepared by the Independent Valuer, being approximately RMB385,831,800 (equivalent to approximately HK$489,041,807) as of 30 June 2013, as set out in the valuation report dated 5 December 2013. The valuation for the Production Lines and the Inventories was conducted based on, among other things, the relevant governmental rules and regulations in relation to asset valuations in the PRC, the information provided by Huachen and site inspection findings. After due and careful consideration and based on the applicable PRC valuation standards, the industry practice and the information available to the Independent Valuer, the Independent Valuer has decided to adopt the cost approach for valuation of the assets. Further details on the valuation are disclosed in the valuation report (the original text is in Chinese) prepared by the Independent Valuer as set out in Appendix I of this circular. Based on their review of the valuation report and enquiries made of the Independent Valuer about the valuation methodology by the Directors, the Directors (including the independent non-executive Directors except for Mr. Wu Xiao An and Mr. Qi Yumin) are of the view that the valuation methodology adopted by the Independent Valuer is objective and fair. Also, even though the valuation date of the valuation report was 30 June 2013, which was more than five months from the Latest Practicable Date, as (i) the valuation is valid for one year as set out in the valuation report; (ii) it is generally accepted by the authority for similar valuation tenure; (iii) as examined by the Independent Valuer, the Production Lines are still in good working conditions with 14-15 years of useful life whilst the Inventories are not obsolete and are available for immediate sale or further processing; and (iv) to the best knowledge of the Company, the Company is not aware of any material change from 30 June 2013 up to the Latest Practicable Date, the Directors (including the independent non-executive Directors except for Mr. Wu Xiao An and Mr. Qi Yumin) are of the opinion that the basis of valuation is fair and reasonable.

The book values of the Production Lines and the Inventories were approximately RMB265,484,010 (equivalent approximately HK$336,500,983) and RMB83,243,100 (equivalent approximately HK$105,510,629) respectively as at 30 June 2013. The aggregate original purchase costs of the Production Lines and the Inventories were approximately RMB324,732,700 (equivalent approximately HK$411,598,697) and RMB83,243,100 (equivalent approximately HK$105,510,629) respectively.

The VAT was calculated at the standard rate in the PRC of 17%.

Payment of the Consideration shall be made within thirty (30) working days after the date on which all the Conditions have been satisfied. In the event that Mianyang Xinchen fails to pay all or any part of the Consideration on the terms of the Acquisition Agreement, it shall be liable to pay, for each day where any part of the Consideration remains overdue, an amount equivalent to 0.03% of the outstanding balance. If it fails to fulfill its payment obligation within thirty (30) working days from the due date of any part of the Consideration, Huachen shall be entitled to terminate the Acquisition Agreement and request Mianyang Xinchen to pay an additional amount equivalent to 10% of the total Consideration.

Completion of the Acquisition

Completion is expected to take place within ten (10) working days after the date on which all the Conditions have been satisfied. The ownership and risk of the Production Lines and the Inventories shall transfer from Huachen to Mianyang Xinchen upon the acknowledgement by Mianyang Xinchen of its receipt of each asset in writing.

If Huachen fails to deliver the Production Lines and the Inventories on the terms of the Acquisition Agreement, Mianyang Xinchen shall have the right to request delivery in writing. If Huachen fails to deliver the Production Lines and the Inventories within thirty (30) working days from the date of such written notice, Mianyang Xinchen shall be entitled to terminate the Acquisition Agreement and request Huachen to refund in full any part of the Consideration and the interest accrued thereto paid by Mianyang Xinchen to Huanchen and to pay an amount equivalent to 10% of the total Consideration.

Conditions precedent to the Acquisition

The Acquisition Agreement will become effective upon the satisfaction of the following Conditions:

(1) the Acquisition Agreement having been duly executed by the parties and affixed with their company chops;

(2) the Acquisition having been approved by Liaoning SASAC; and

(3) the Acquisition having been approved by the Independent Shareholders.

The parties cannot waive any of the above Conditions. If the Conditions are not satisfied within three (3) months of the date of the Acquisition Agreement or by another date as mutually agreed by the parties, the Acquisition Agreement will automatically lapse.

REASONS FOR AND BENEFITS OF THE ACQUISITION

E3 engine production lines

As mentioned in our announcement dated 28 May 2013, the Company had leased from Huachen the E3 engine production lines and part of the E2 Factory as part of its plan 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. Further details on the Lease Agreement and the related Framework Agreement and Materials Procurement Agreement entered into between Mianyang Xinchen and Huachen are set out in the Company's announcement dated 28 May 2013. The Company has determined that it would be more beneficial to acquire the E3 engine production lines rather than continue to lease them, as this would enable the Company to upgrade and retool the facilities more efficiently to meet the new and higher demand of customers.

Connection rod production lines

The Company plans to expand into a new market of engine parts and components by supplying connection rods to BMW Brilliance Automotive Ltd.（華晨寶馬汽車有限公司）. As the connection rod is a key component of N20 engines designed for BMW vehicles and the market demand of BMW vehicles is growing rapidly, the acquisition of the connection rod production lines would help the Company enter into this new market with a view to capture the escalating business opportunity and broaden the revenue stream of the Company.

The Framework Agreement, the Lease Agreement and the Materials Procurement Agreement

As a result of the above Acquisition, Mianyang Xinchen and Shenyang Brilliance Power (a non wholly-owned subsidiary of Huachen) entered into the New Lease Agreement pursuant to which space for accommodating both the E3 engine production lines and the connection rod production lines will be leased. Immediately after Completion, the Lease Agreement together with the related Framework Agreement and Materials Procurement Agreement will be terminated and the New Lease Agreement will take effect. Further details on the New Lease Agreement are set out in the Company's announcement dated 16 December 2013.

View of the Directors

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 Acquisition and the transactions contemplated under the Acquisition Agreement. 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 Acquisition and the transactions contemplated under the Acquisition Agreement. Accordingly, none of the other Directors, except for Mr. Wu Xiao An and Mr. Qi Yumin, were required to abstain from voting on the Board resolutions in relation to the Acquisition and the transactions contemplated under the Acquisition Agreement.

INFORMATION OF THE PARTIES INVOLVED

The Group is principally engaged in the manufacture of automotive engines 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.

LISTING RULES REQUIREMENTS

As at the Latest Practicable Date, Huachen is interested in 42.48% of the issued share capital of Brilliance China, a controlling shareholder of the Company which in turn is interested in 31.07% of the issued share capital of the Company. Huachen is deemed to be a connected person of the Company under Rule 14A.06 of the Listing Rules by the Stock Exchange. Mianyang Xinchen, on the other hand is an indirect wholly-owned subsidiary of the Company. As the highest applicable percentage ratio in respect of the Acquisition is more than 5% but less than 25% and the Consideration is more than HK$10 million, the Acquisition constitutes a discloseable and connected transaction of the Company which is subject to the reporting, announcement and the independent shareholders' approval requirement under the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, being the independent non-executive Directors, has been established to advise the Shareholders as to whether the terms of the Acquisition are fair and reasonable and whether the Acquisition is in the interest of the Company and the Shareholders as a whole, after taking into account the recommendations of the Independent Financial Adviser. The Company has appointed the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable and whether the Acquisition is in the interest of the Company and the Shareholders as a whole.

EGM

The Company will convene the EGM to, among other things, to consider and approve the Acquisition Agreement and the transactions contemplated thereunder. The notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. Brilliance China and its associates which held 400,000,000 Shares representing approximately 31.07% of the issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting at the EGM. Save as disclosed, none of the Shareholders have any material interest in the transactions contemplated under the Acquisition Agreement and therefore are not required to abstain from voting at the EGM.

Pursuant to the Listing Rules, voting by poll is mandatory at all general meetings (except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands). The Chairman of the EGM will demand a poll on the resolutions proposed at the EGM. The results of the poll will be published on the websites of the Company and the Stock Exchange on the day of the EGM.

A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser, and except for Mr. Wu Xiao An and Mr. Qi Yumin who had abstained from voting at the Board) are of the view that the transactions contemplated under the Acquisition Agreement are on normal commercial terms, in the ordinary and usual course of business of the Company and such terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, 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) recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on page 14 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM, (ii) the letter from the Independent Financial Adviser as set out on pages 15 to 27 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders and (iii) the valuation report (the original text is in Chinese) prepared by the Independent Valuer as set out on pages I-1 to I-26 of this circular.

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

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)

31 December 2013

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF PRODUCTION LINES AND INVENTORIES

We refer to the circular issued by the Company on 31 December 2013 (the "**Circular**") of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the terms of the Acquisition Agreement and to advise the Independent Shareholders in connection with the Acquisition Agreement as to whether, in our opinion, their terms are fair and reasonable so far as the Independent Shareholders are concerned and whether the Acquisition Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Octal Capital Limited has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in this circular. Having taken into account the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the Acquisition Agreement and the transactions contemplated thereunder to be fair and reasonable so far as the interests of the Independent Shareholders are concerned and to be in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to approve the Acquisition Agreement and the transactions contemplated thereunder in the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee of
Xinchen China Power Holdings Limited
Chi Guohua **Wang Jun** **Huang Haibo** **Wang Songlin**
Independent non-executive Directors

The following is the full text of the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the incorporation into this circular.

八方金融有限公司
OCTAL Capital Limited

801-805, 8/F, Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

31 December 2013

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition (as defined below) and terms thereof, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular to the Shareholders dated 31 December 2013 (the "**Circular**") and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, on 25 November 2013, Huachen and Mianyang Xinchen entered into the Acquisition Agreement pursuant to which Mianyang Xinchen agreed to purchase (i) the Production Lines consisting of the E3 engine production lines and the connection rod production lines in the E2 Factory located in No. 12, the 8 Road, Economic and Technological Development Zone, Shenyang, PRC; and (ii) the Inventories primarily comprising some auxiliary materials, cutting tools, the parts and components of E3 engines, a small amount of E3 finished products, the roughcasts of connection rod and some finished connection rod products (altogether the "**Assets**") at a consideration of RMB451,423,200 from Huachen.

As the highest percentage ratio among all the relevant percentage ratios for the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under the Listing Rules. In addition, as the Vendor is the controlling shareholder of the Company, which is a connected person as defined under the Listing Rules, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules which is subject to the Independent Shareholders' approval requirement. The Company will hold the EGM for the purpose of considering and approving the entering into of the Acquisition Agreement by the independent shareholders of the Company. Brilliance China (a controlling Shareholder which in turn is 42.48% owned by Huachen) and its associates will abstain from voting at the EGM, at which the proposed resolution will be passed by way of ordinary resolutions and voting will be conducted by way of poll in accordance with the requirements of the Listing Rules.

We are not connected with the Directors, chief executive and substantial shareholders of the Company, Mianyang Xinchen, Huachen or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, Mianyang Xinchen, Huachen or any of their respective subsidiaries or associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Mianyang Xinchen, Huachen and their respective controlling shareholder and associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Acquisition Agreement, we have considered the following principal factors and reasons:

1. Background of and reasons for the Acquisition

- ***Background***

The Group is principally engaged in the manufacture of automotive engines of the passenger vehicles and light commercial vehicles; and development, manufacture and sale of light-duty gasoline and diesel engines. As advised by the Company, as at the Latest Practicable Date, the Group manufactured and sold 36 models of automotive engines, including 28 models of light-duty gasoline engines, which include fifteen models under 1.6L (incl.), three models between 1.6L and 2.0L (incl.), eight models between 2.0L and 2.5L (incl.), two models between 2.5L and 3.0L (incl.) and eight models of light-duty diesel engines between 2.0L and 2.5L (incl.). These engines can be installed in passenger vehicles (PVs) and light commercial vehicles (LCVs), including sedans, sport utility vehicles (SUVs), multi-purpose vehicles (MPVs), small and mini buses, small and light-duty trucks. Currently, all of the engines produced by the Group are sold domestically in the PRC.

Set out below is the extract from the annual report for the year ended 31 December 2012 (the "**2012 Annual Report**") and the interim report for the six months ended 30 June 2013 (the "**2013 Interim Report**") of the Company. During the two years ended 31 December 2012 and the six months ended 30 June 2013, gasoline engines have been the principal source of revenue of the Company and contributed over 80% of the total revenue.

	For the year ended 31 December 2011 audited *(RMB'000)*	**For the year ended 31 December 2012 audited** *(RMB'000)*	**For the six months ended 30 June 2013 unaudited** *(RMB'000)*
Gasoline engines	1,803,574	2,058,889	1,119,104
Diesel engines	463,365	470,405	163,656
Engine components and service income	40,809	43,447	19,428
Total	2,307,748	2,572,741	1,302,188

As advised by the Company, the gasoline engines manufactured by the Group can be generally divided into four classes according to their volume of displacement and the revenue and sales volume attributable to each class of gasoline engines are set out as follows:–

Gasoline engines	For the year ended 31 December 2011		For the year ended 31 December 2012		For the six months ended 30 June 2013	
	Revenue audited *(RMB'000)*	Sales volume *Unit*	Revenue audited *(RMB'000)*	Sales volume *Unit*	Revenue unaudited *(RMB'000)*	Sales volume *Unit*
≤1.6L	622,333	80,326	873,435	114,327	559,925	72,853
>1.6L – 2.0L	290,550	40,320	295,308	42,405	118,339	17,367
>2.0L – 2.5L	856,929	88,238	860,307	87,033	432,329	43,607
>2.5L – 3.0L	33,762	1,676	29,839	1,581	8,511	486
Total	1,803,574	210,560	2,058,889	246,346	1,119,104	134,313

As set out in the above table, revenue attributable to the sale of gasoline engines with displacement between 2.0L and 2.5L (incl.) and below 1.6L (incl.) represents (i) around 42% and around 42% of the total revenue attributable to the sale of gasoline engines respectively during the year ended 31 December 2012; and (ii) around 39% and around 50% of the total revenue attributable to the sale of gasoline engines respectively during the six months ended 30 June 2013. Over the last few years, the sales volume of engines with displacement below 1.6L has grown significantly and these engines have become the leading products of the Company and accounted for about 54% of the total sales volume of gasoline engines for the six months ended 30 June 2013. Such trend also tallies with the market preferences towards compact cars which use smaller engines, consume less fuel and are more environmental friendly.

Products of the Group are mainly manufactured at the production facilities in Mianyang, Sichuan Province, the PRC and the Group owns 15 production lines as at the Latest Practicable Date, including three for casting, seven for machining and five for assembly and testing with annual engine production volume of approximately 300,000 units. As advised by the Company, the existing production capacity is basically fully utilized and the existing capacity is not sufficient to cover the expected market demand. In this regard, since May 2013, the Company has leased from Huachen the E3 engine production lines and part of the E2 Factory as part of its plan to increase its production capacity and upgrade existing production machinery and equipment by constructing new production facilities to meet the increasing demand for its products.

- ***Information on the Assets***

The Assets comprise (i) the Production Lines consisting of the E3 engine production lines and the connection rod production lines; and (ii) the Inventories, primarily comprising some auxiliary materials, cutting tools, the parts and components of E3 engines, a small amount of E3 finished products, the roughcasts of connection rod and some finished connection rod products. Most of the machinery and equipment of the Production Lines were imported from overseas. As examined by the Independent Valuer, the Production Lines are in good working conditions although they were built around 2005 and 2006. The Company expects that the useful life of the Production Lines to be around 14-15 years from now.

Such production facilities are located at Shenyang, Liaoning Province, the PRC. The Assets are used for production of engines, engine components and connection rods. The annual maximum production capacity of engines, engine components and connection rods are 60,000 engines, 40,000 pieces and 800,000 pieces respectively. The engines produced by the Production Lines are mainly 1.5L engines which would be used in PVs and LCVs in general. The connection rod production lines produce connection rods which will be applied towards the engines of the BMW vehicles to be supplied to BMW Brilliance Automotive Ltd（華晨寶馬汽車有限公司）.

- ***Reasons for the Acquisition***

As set out in the Letter from the Board and as mentioned in the announcement (the "**Announcement**") of the Company dated 28 May 2013, the Company had leased from Huachen the E3 engine production lines and part of the E2 Factory as part of its plan to increase its production capacity and upgrade existing production machinery and equipment by constructing new production facilities to meet the increasing demand for its products. The Company has determined that it would be more beneficial to acquire the E3 engine production lines rather than continue to lease them as this would enable the Company to upgrade and retool the facilities more efficiently to meet the new and higher demand of customers. In addition, the Company plans to expand into a new market of engine parts and components by supplying connection rods to BMW Brilliance Automotive Ltd.. As the connection rod is a key component of N20 engines designed for BMW vehicles and the market demand of BMW vehicles is growing rapidly, the acquisition of the connection rod production lines would help the Company enter into this new market with a view to capture the escalating business opportunity and broaden the revenue stream of the Company.

As advised by the Company, the Company has planned 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. For instance, some of the major customers of the Group are located in middle or Eastern side of the PRC such as Henan, Jilin, Liaoning and Fujian Provinces. Hence, upon completion of the Acquisition, it would facilitate the Group to deliver its products to these customers quicker and cheaper. Meanwhile, the Acquisition would also enable the Group to increase its production facilities immediately which is in line with the plan of the Company. As advised by the Company, the cost for establishing brand new production lines for producing same products would be more than the consideration paid for the Production Lines and it takes time to complete testing, adjustment and modification before the new production lines can be put to full production. Besides, the Acquisition would allow the Company to upgrade the Production Lines with a view to increase its market share, competitiveness and enhance its efficiency whereas it is not efficient to upgrade the production lines owned by third parties as it needs lengthy negotiation with the owner on issues like cost-sharing, property rights and etc..

Furthermore, the Inventories under the Acquisition are essential for producing engines and connection rods and the Inventories would help the Group to build up some buffer stocks for future production and delivery to customers. Nevertheless, although it appears that the leasing of the Production Lines may be more cost efficient than acquiring the Production Lines, after taking into account inflation and benefits arising from the Acquisition as stated above, the Company is better off by proceeding with the Acquisition.

Meanwhile, the Group has plans to enter into the business of engine parts and components and the acquisition of the connection rod production lines will allow the Company to tap into such new market promptly. According to the annual report for the year ended 31 December 2012 of Brilliance China, BMW Brilliance Automotive Ltd. has achieved sales of 160,849 BMW sedans and SUVs, representing an increase of 48.7% as compared to that of 2011. Moreover, according to the interim report for the six months ended 30 June 2013 of Brilliance China, BMW Brilliance Automotive Ltd. has achieved sales of 80,792 BMW sedans, representing an increase of 30.8% as compared to that of the corresponding period in 2012. Based on the above, we consider that market demand of BMW vehicles is growing rapidly and the acquisition of the connection rod production lines would expedite the Company to entering into this new market of engine parts and components with a view to capture such escalating business opportunity and broaden the revenue stream of the Company.

On the other hand, according to China Association of Automobile Manufacturers (中國汽車工業協會[1]), the unit sales of passenger vehicles and commercial vehicles (buses only) in the PRC have been increasing from approximately 14.5 million and approximately 0.46 million respectively in 2011 to approximately 15.5 million and approximately 0.48 million respectively in 2012. Meanwhile, the unit sales of passenger vehicles and commercial vehicles (buses only) in the PRC reached approximately 12.8 million and approximately 0.37 million for the first nine months of 2013, representing increases of approximately 14.2% and 8.1% respectively as compared to the relevant sales of the corresponding period in the previous year. We consider that the demand of PVs and LCVs in the PRC remains strong (as compared to the growth rate of the economy of the PRC) which in turn represents a strong demand for the engines of the Group, which are mainly used for PVs and LCVs.

1 *China Association of Automobile Manufacturers (中國汽車工業協會) of the PRC is a non-profit making social organization established to facilitate the interactions between the PRC government and market participants in the automobile industry and protect and promote the automobile industry in the PRC and an independent third party not connected with the substantial shareholders, chief executive and directors of the Company.*

- ***Relevant regulatory requirement on the acquisition of the Assets***

As at the Latest Practicable Date, the Assets are owned by Huachen, 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. Accordingly, Huachen is required to go through the process for complying with the relevant PRC laws and regulations concerning the disposal of state-owned assets and the Acquisition is subject to approval from Liaoning SASAC.

Pursuant to the Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (transliterated from 企業國有資產監督管理暫行條例), transfer of assets or property rights owned by a state-owned enterprise should be subject to valuation and is subject to approval from SASAC. The valuation company must also possess the relevant qualification for valuation on state-owned enterprises as recognized by the PRC government. We note that Huachen has engaged the Independent Valuer to perform valuation on the Assets and we were advised by the Company that Huachen and the Company have been working together to obtain approval from Liaoning SASAC.

Based on the above, we consider that there is a strong commercial rationale for the Company to enter into the Acquisition Agreement and the Acquisition represents a good opportunity for the Company increase its production capacity instantly, which in turn may facilitate the Company to save cost and allow the Company to upgrade the Production Lines with a view to increase its market share, competitiveness and enhance its efficiency. Moreover, the Acquisition allows the Company to enter into the upstream of engine manufacturing with a high-end product, i.e. the connection rod for N20 engines. This will broaden the revenue base and increase profitability of the Company.

2. Terms of the Acquisition

- ***Consideration***

Pursuant to the Acquisition Agreement, the Consideration for the Acquisition is RMB451,423,200 (equivalent to approximately HK$572,178,906), comprising consideration in respect of the Production Lines of RMB299,813,000 (equivalent to approximately HK$380,012,978) and Inventories of RMB86,018,800 (equivalent to approximately HK$109,028,829), both VAT exclusive, and corresponding VAT of RMB50,968,200 and RMB14,623,200 respectively. The Consideration will be settled in cash or cash equivalents and by setting off accounts receivables due from Huachen or its subsidiaries.

The Consideration was determined after arm's length negotiations between Huachen and Mianyang Xinchen, with reference primarily to the indicative valuation of the Production Lines and the Inventories prepared by the Independent Valuer, being RMB385,831,800 (equivalent to approximately HK$489,041,807) as set out in the valuation report dated 5 December 2013. The book values of the Production Lines and the Inventories were RMB265,484,010 (equivalent to approximately HK$336,500,983) and RMB83,243,100 (equivalent to approximately HK$105,510,629) respectively as at 30 June 2013. The aggregate original purchase costs of the Production Lines and the Inventories were RMB324,732,700 (equivalent to approximately HK$411,598,697) and RMB83,243,100 (equivalent to approximately HK$105,510,629) respectively. The VAT was calculated at the standard rate in the PRC of 17%.

In compliance with the requirements of Rule 13.80 of the Listing Rules, we have reviewed and enquired the qualification and experience of the Independent Valuer in charge of the valuation. We have obtained from the Independent Valuer and reviewed copies of the "Qualification Certificate on Asset Appraisal" issued by the Bureau of Finance of Beijing of the PRC and "Qualification Certificate on Securities, Futures and Related Business" jointly issued by China Securities Regulatory Commission and the Ministry of Finance of the People's Republic of China. We have checked the website of SASAC and noted that the Independent Valuer is on the recognized list of valuation companies. Meanwhile, we understand from our enquiry with the Independent Valuer that it is a third party independent of the Group and/or Huachen and the connected persons of the Group and/or Huachen and Huachen and the Independent Valuer did not have any business relationship and the current engagement is the first project between them. We have also reviewed the scope of services provided under the engagement between the Independent Valuer and the Company and we note that the scope of work is appropriate to the opinion given and there were no limitations on the scope of work. Thus, we consider that the Independent Valuer is qualified and possesses sufficient relevant experience in performing the valuation of the Assets.

As set out in the valuation report prepared by Independent Valuer (the "**Valuation Report**"), the fair value of the Assets was approximately RMB385,831,800 as at 30 June 2013. Based on our review of the Valuation Report and our discussion with the Independent Valuer, we noted that the valuation of the Assets was arrived at by adopting the cost approach with reference to the depreciated replacement cost of the Assets. Based on our discussion with the Independent Valuer, the Independent Valuer has considered other approaches. However, since there is no close comparable transaction of the Assets in open market, market approach is therefore not applicable for valuing the Assets. Meanwhile, the Independent Valuer considered income approach was not appropriate as the Assets cannot be leased to third parties individually to generate income. Notwithstanding that the valuation date of the Valuation Report was 30 June 2013, which was a date more than five months from the Latest Practicable Date, in light of (i) the valuation is valid for one year as set out in the Valuation Report; (ii) it is generally accepted by the authority for similar valuation tenure; (iii) as examined by the Independent Valuer, the Production Lines are still in good working conditions with 14-15 years of useful life whilst the Inventories are not obsolete and are available for immediate sale or further processing; and (iv) to the best knowledge of the Company, the Company is not aware of any event of material change to the Assets during the valuation date up to the date of the Valuation Report which would render the valuation being invalid, we consider that the valuation is an appropriate and relevant benchmark for determining the Consideration and is a fair and reasonable approach.

Based on our review and analysis of the Valuation Report, we considered that the valuation approaches adopted are common valuation methodologies in appraising such assets and the basis and assumptions adopted by the Independent Valuer for the valuation are fair and reasonable. On the other hand, the Consideration includes the corresponding VAT of the Assets which was calculated based on the standard rate of 17%. Accordingly, we consider that the level of the Consideration of approximately RMB451,423,200 million (VAT inclusive), which was determined primarily with reference to the valuation of the Assets in the Valuation Report, is reasonable.

- ***Mode of settlement of the Consideration***

Pursuant to the Acquisition Agreement, the Consideration will be settled in cash or cash equivalents and by setting off accounts receivables due from Huachen or its subsidiaries.

As advised by the Company, it is intended that the Consideration would be settled by way of payment in cash or cash equivalents in the amount of approximately RMB200 million and setting off accounts receivables from Huachen or its subsidiaries in the amount of approximately RMB250 million. According to the 2013 Interim Report, the Group has bank balances and cash in the amount of approximately RMB1,221.3 million as at 30 June 2013. We were advised by the Company that a substantial portion of such balances were proceeds raised from the initial public offering of the shares of the Company in March 2013 and most of the funds have been earmarked for specific uses according to the then business plans where a heavier weighting was put toward expanding and upgrading production capacity. As further advised by the Company, the Company recorded accounts receivables due from Huachen or its subsidiaries resulting from the sales of engines by the Group to Huachen from historical transactions. The Company plans to set off part of such accounts receivables which would reduce its overall level of receivables and reliance from related parties. In addition, by doing so, the parties can avoid the substantial physical back and forth fund flow between the parties and reduce transaction cost and the Company can preserve cash for its intended purposes.

Based on the above, we consider that the mode of settlement of the Consideration is on normal commercial terms, fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

3. Financial effects of the Acquisition

(i) Earnings

As set out in the Announcement, the Group used to lease the E3 engine production lines of the Assets from Huachen for part of its production and pays a fee of approximately RMB15.2 million per year. In addition, the Group will acquire the connection rod production lines in the E2 Factory and the Inventories. Upon completion of the Acquisition, the Assets will become assets of the Group and such leasing arrangement of E3 engine production lines will cease and the Group will be able save such costs. Moreover, the Assets will facilitate the Group to increase capacity in engine production and to enter into the connection rod business and generate future income. Furthermore, as advised by the Company who followed the relevant PRC taxation practice based on the Measures on Several Issues concerning the National Implementation of Value-added Tax Reform issued jointly by Ministry of Finance of the PRC and State Administration of Taxation of the PRC in December 2008, the relevant VAT paid is allowed to be and will be used to set-off other VAT obligations of the Group and will not be recorded as an expense in the income statement upon completion of the Acquisition. As such, the Company expects that the Acquisition will bring positive effect to the earnings of the Group.

(ii) Cashflow

Based on the 2013 Interim Report, the Group had cash and bank balances of approximately RMB1,221.3 million as at 30 June 2013. As advised by the Company, the Company intends to settle the Consideration by way of payment in cash or cash equivalents in the amount of approximately RMB200 million and setting off accounts receivables from Huachen or its subsidiaries in the amount of approximately RMB250 million upon completion of the Acquisition Agreement. Thus, it is expected that there will be a negative effect on the cashflow of the Group arising from the Acquisition as there will be cash outlay as a result of the Acquisition but this will not affect the working capital sufficiency of the Group as the Group has been profit-making consecutively since 2009 and recorded net current assets in the amount of RMB1,539 million as at 30 June 2013. In addition we have reviewed the working capital forecast of the Group for the year ending 31 December 2014 and it shows that the Group would maintain a positive cashflow.

(iii) Net Asset Value

According to the 2013 Interim Report, as at 30 June 2013, the unaudited consolidated net assets attributable to equity holders of the Company and the net asset value per Share were approximately RMB2,050.4 million and approximately RMB1.59 respectively. Upon completion of the Acquisition, the Assets will become assets of the Group and the Company will settle the Consideration (which included VAT) by payment in cash or cash equivalents in the amount of approximately RMB200 million and setting off accounts receivables from Huachen or its subsidiaries in the amount of approximately RMB250 million.

Based on the above and as confirmed by the Company that the Acquisition is an asset transaction where the Assets will be recorded as assets of the Group and the VAT paid will be used to set-off certain VAT payables which would reduce liabilities of the Company, the resulting effect would be reduction in total assets but zero effect on net assets. Hence, we consider that the Acquisition is expected to have neutral effect on the Group's net assets position and on net asset value per Share.

(iv) Gearing

According to the 2013 Interim Report, the gearing ratio of the Group as at 30 June 2013 was approximately 11.2%, as derived by dividing the total interest-bearing liabilities of the Group as at 30 June 2013 of approximately RMB229.0 million by the total equity of approximately RMB2,050.4 million as at 30 June 2013. Given that the Completion of the Acquisition will not result in increment in borrowing of the Company whilst the net assets will not decrease after the Acquisition, it is expected that the gearing ratio would remain unchanged upon completion of the Acquisition.

On such basis, we are of the view that the transactions under the Acquisition Agreement will have a positive effect on the Group's earnings, net assets positions and gearing, albeit it has a negative short term impact on the Group's cashflow. Thus, we are of the view that the Acquisition is, on balance, in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons, we are of the opinion that the terms of the Acquisition Agreement are on normal commercial terms, in the ordinary course of business of the Group and are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung	**Louis Chan**
Managing Director	*Director*

The following is the full text of the valuation report (the original text is in Chinese) issued by the Independent Valuer prepared for the incorporation into this circular.

APPRAISAL REPORT

Appraisal Project Relating to the Proposed Transfer of Part of the Assets of Huachen Automotive Group Holdings Company Limited*
（華晨汽車集團控股有限公司）

Zhuoxindahua Ping Bao Zi (2013) No. 115

Beijing Zhuoxindahua Appraisal Co., Ltd.*
（北京卓信大華資產評估有限公司）
5 December 2013

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STATEMENT OF CERTIFIED ASSET APPRAISER

In relation to the appraisal report for the appraisal project relating to the proposed transfer of part of the assets of Huachen Automotive Group Holdings Company Limited*（華晨汽車集團控股有限公司）, the certified asset appraisers of Beijing Zhuoxindahua Appraisal Co., Ltd.*（北京卓信大華資產評估有限公司）hereby issue the following statements:

1. We have complied with the relevant laws and regulations and asset appraisal standards and adhered to the principles of independence, objectivity and impartiality in performing this asset appraisal. According to the information collected by us during the appraisal process, we are of the opinion that the contents of the appraisal report are objective and we will assume the legal liabilities for the reasonableness of our conclusions of appraisal.

2. The list of assets relating to the subject of appraisal has been provided and signed/sealed for confirmation by the principal and the title holder. The principal and the relevant parties are responsible for the truthfulness, legality and completeness of the materials provided by them as well as the proper use of the appraisal report.

3. We have no existing or potential interest in the subject of appraisal as set out in the appraisal report, nor do we have any existing or potential interest in or any bias against the relevant parties.

4. We have conducted on-site inspections of the subject of appraisal set out in the appraisal report and its related assets. We have paid due attention to the legal titles of the subject of appraisal and its related assets, verified the materials relating to such legal titles on the subject of appraisal and its related assets, made truthful disclosures of the issues we have identified and requested the principal and the relevant parties to perfect the titles to meet the requirements for the issuance of the appraisal report.

5. The analyses, judgments and conclusions made in the appraisal report are subject to the assumptions and limiting conditions as set out in the appraisal report. Users of the appraisal report are advised to take into full consideration the assumptions, limiting conditions and explanatory notes on specific matters set out in the appraisal report as well as their impact on our conclusions of appraisal.

APPRAISAL PROJECT RELATING TO THE PROPOSED TRANSFER OF PART OF THE ASSETS OF HUACHEN AUTOMOTIVE GROUP HOLDINGS COMPANY LIMITED* (華晨汽車集團控股有限公司)

SUMMARY OF APPRAISAL REPORT

By accepting the appointment from Huachen Automotive Group Holdings Company Limited*(華晨汽車集團控股有限公司), Beijing Zhuoxindahua Appraisal Co., Ltd.*(北京卓信大華資產評估有限公司)has appraised the market value of inventory and equipment relating to the proposed transfer of part of the assets of Huachen Automotive Group Holdings Company Limited*(華晨汽車集團控股有限公司). The major information and the conclusions of appraisal set out in the full text of the appraisal report are summarized as follows.

Economic behaviour: proposed transfer of part of the assets of Huachen Automotive Group Holdings Company Limited*(華晨汽車集團控股有限公司).

Appraisal objective: to estimate the market value of the equipment (including those constructions in progress) and inventory for E3 and connection rod segments of Huachen Automotive Group Holdings Company Limited (Engine Factory)*(華晨汽車集團控股有限公司(發動機工廠))involved in the proposed transfer of part of the assets of Huachen Automotive Group Holdings Company Limited*(華晨汽車集團控股有限公司)as at the appraisal date, and issue an expert's opinion in this regard to provide a reference to value for the proposed implementation of economic behaviour.

Subject of appraisal and scope of appraisal: the subject of appraisal is the value of each asset of Huachen Automotive Group Holdings Company Limited (Engine Factory)*(華晨汽車集團控股有限公司(發動機工廠))involved in the proposed economic behaviour of the principal. The scope of appraisal is the equipment (including those constructions in progress) and inventory for E3 and connection rod segments of Huachen Automotive Group Holdings Company Limited (Engine Factory)*(華晨汽車集團控股有限公司(發動機工廠)).

Type of value: the market value of the subject of appraisal assuming it will continue to be used in the original location.

Appraisal date: 30 June 2013.

Appraisal approach: cost approach.

Conclusions of appraisal: the total carrying value of the assets of the segment before the appraisal was RMB348,727,000, and these assets were valued at RMB385,831,800, representing an increase of RMB37,104,800, or 10.64%, of which, the inventory, with a carrying value of RMB83,243,000, was valued at RMB86,018,800, representing an increase of RMB2,775,800, or 3.33%; the machineries and equipment, with a carrying value of RMB151,895,500, was valued at RMB189,387,700, representing an increase of RMB37,492,200, or 24.68%; and the construction in progress, with a carrying value of RMB113,588,500, was valued at RMB110,425,300, representing a decrease of RMB3,163,200, or 2.78%.

For details of the conclusions of appraisal, please refer to the appraisal report.

Validity period of conclusions of appraisal: the conclusions of appraisal is valid for one year from the appraisal date, beyond which the relevant assets are subject to re-assessment.

For specific matters having an impact on the conclusions of appraisal: users of the appraisal report should pay attention to the impact of the specific matters mentioned in the full text of this report on the conclusions of appraisal.

The contents above are extracted from the full text of the appraisal report. To understand the details of the appraisal project and have a reasonable understanding of the conclusions of appraisal, you should read the full text of the appraisal report.

APPRAISAL PROJECT RELATING TO THE PROPOSED TRANSFER OF PART OF THE ASSETS OF HUACHEN AUTOMOTIVE GROUP HOLDINGS COMPANY LIMITED* (華晨汽車集團控股有限公司)

FULL TEXT OF APPRAISAL REPORT ZHUOXINDAHUA PING BAO ZI (2013) NO. 115

To Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司),

Under your appointment, by applying the cost approach and performing necessary appraisal procedures in accordance with the applicable laws and regulations as well as the standards and principles for asset appraisal in the PRC, we, Beijing Zhuoxindahua Appraisal Co., Ltd.* (北京卓信大華資產評估有限公司), have appraised the market value of inventory and equipment relating to the proposed transfer of part of the assets of Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司) as at 30 June 2013. Details of the asset appraisal are reported as follows.

I. Information on the Principal, Title Holder and Other Users of the Appraisal Report Specified in the Engagement Letter

The principal of this appraisal is Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司); the title holder is an Engine Factory under Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司); and the other users of the appraisal report specified in the Engagement Letter are the competent regulatory authorities.

(1) The Principal

Name of enterprise:	Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司)
Legal domicile:	39 Dongwang Street, Dadong District, Shenyang City (瀋陽市大東區東望街39號)
Place of business:	39 Dongwang Street, Dadong District, Shenyang City (瀋陽市大東區東望街39號)
Legal representative:	Qi Yumin (祁玉民)
Registered capital:	Renminbi Eight Hundred Million
Paid-up capital:	Renminbi Eight Hundred Million
Company nature:	Company with limited liability (wholly state-owned)
No. of Enterprise Legal Person Business License:	210000004937708

Scope of business: state-owned assets operation; entrusted assets operation and management; develop and design various types of automobiles, engines and components and parts as well as provision of technical consultation; manufacturing and refitting services and sale of various types of cars, engines and components and parts and provision of technical consultation and after-sales services; import and export of self-manufactured and licensed equipment, goods and technology; provision of technical consultation and technical services relating to the manufacturing equipment for automobiles, engines and components and parts, property development and new energy development; capital operation; internal control management and consultation services, OEM processing services; leasing services; and development of other operating activities relevant to the abovementioned business.

(2) The Title Holder

Name of enterprise:	Huachen Automotive Group Holdings Company Limited Engine Factory*（華晨汽車集團控股有限公司發動機工廠）
Place of business:	12 No. 8 Road, Shenyang Economic and Technological Development Zone（瀋陽經濟技術開發區八號路12號）

Located in Shenyang Economic and Technological Development Zone, Huachen Automotive Group Holdings Company Limited Engine Factory*（華晨汽車集團控股有限公司發動機工廠）(hereinafter referred to as the "**Engine Factory**") is an engine factory under Huachen Automotive Group Holdings Company Limited*（華晨汽車集團控股有限公司）and its predecessor is Brilliance Jinbei Engine Plant*（華晨金杯發動機工廠）.

(3) Relationship between the principal and the title holder

The title holder, being the Engine Factory, is a subordinate entity of the principal, being Huachen Automotive Group.

(4) Users of the appraisal report other than the principal

The appraisal report is intended to be used only by the principal, Huachen Automotive Group, the Engine Factory and the competent regulatory authorities specified in the Engagement Letter for the purpose of the appraisal objective set out in the appraisal report, unless otherwise provided in the PRC laws and regulations. Users of the appraisal report shall use such report properly, and the appraiser disclaims any liability whatsoever for any adverse effects that arise from the improper use of the appraisal report.

II. Purpose of Appraisal

According to an Asset Appraisal Engagement Letter dated 28 August 2013, Huachen Automotive Group proposed the transfer of part of its assets. The purpose of this appraisal is to estimate the market value of the equipment (including those constructions in progress) and inventory for E3 and connection rod segments of Huachen Automotive Group Holdings Company Limited (Engine Factory)*（華晨汽車集團控股有限公司發動機工廠）involved in the economic behaviour proposed by Huachen Automotive Group Holdings Company Limited*（華晨汽車集團控股有限公司）as at the appraisal date, and issue an expert's opinion in this regard to provide a reference to value for the proposed economic behaviour.

III. Subject of Appraisal and Scope of Appraisal

(1) Subject of appraisal

The subject of appraisal is the value of each asset of Huachen Automotive Group Holdings Company Limited (Engine Factory)*（華晨汽車集團控股有限公司發動機工廠）involved in the proposed economic behaviour in which the principal has designated to be applied.

(2) Scope of appraisal

The scope of this appraisal is the equipment (including those constructions in progress) and inventory for E3 and connection rod segments of Huachen Automotive Group Holdings Company Limited (Engine Factory)*（華晨汽車集團控股有限公司發動機工廠）reported by the principal, which are incorporated into the scope of appraisal. Total carrying value of the assets is RMB348,727,000, of which the carrying value of the machinery and equipment is RMB151,895,500; the carrying value of the inventory is RMB83,243,000, the carrying value of the installation projects for construction in progress is RMB113,588,500.

The subject of appraisal and scope of appraisal are consistent with the subject of appraisal and the scope of appraisal involved in the economic behavour for the transfer of assets proposed by Huachen Automotive Group.

The assets within the scope of appraisal have been audited by a certified public accountant in the PRC and issued an Audit Report of Assets and Liabilities.

(3) Legal title, economic and physical conditions of the principal assets

1. Machineries and equipment

There are 528 units (sets) of machineries and equipment in total, which are mainly equipment for machinery processing, production line conveying, power transforming and distribution and other ancillary equipment used in manufacturing engines and were mostly acquired or built during 2005 to 2006. The vast majority of these machineries and equipment are full sets of imported production line equipment with high unit value. These equipment are all manufactured by overseas and domestic reputable manufacturers and are of high quality. According to our on-site inspection, these assets are in good conditions and capable of meeting current manufacturing needs.

2. Inventory

Inventory comprises raw materials, materials for sub-contracting processing, finished goods and production costs in progress.

(1) Raw materials are mainly engine components and parts. Most of the raw materials are recently purchased, totalling 1,274 items. The raw materials are mainly key materials for use in normal production cycle, self-manufactured components and spare parts.

(2) There is 1 unit of finished good in total, which is an engine that has been assembled and put into storage. It is the finished good for normal sale.

(3) Production costs in progress represent the production costs that cannot be carried forward as at the end of period.

(4) There are 977,669 pieces of materials in total for sub-contracting processing under 53 items, most of which are raw materials for sub-contracting processing and have been completed.

3. Constructions in progress

Constructions in progress are installation projects for equipment. They comprise reconstruction of E2 test bed, reconstruction of BMW-N20 connection rod equipment, acquisition of BMW-B38 connection rod equipment and E3 assembly line equipment installation.

The equipment installation projects comprise 6 projects that had been completed but not inspected for acceptance as at the appraisal date, including equipment for E3 assembly line/ equipment for E3 engine assembly line, as well as the 9 projects that commenced construction after 2011 and had not been completed as at the appraisal date, including BMW-N20 connection rod equipment reconstruction, E3 cylinder wire reconstruction and Changfa line new steel structure reconstruction.

All of the above assets are owned by the Engine Factory.

(4) Reference to reports issued by other institutions

No reference has been made to any reports issued by any other institution for the assets within the scope of appraisal.

IV. Types and Definitions of Value

The types of value normally available for selection in each asset appraisal include market value and non-market value.

To be in line with the appraisal objective, the type of value adopted is the market value of the subject of appraisal assuming it will continue to be used in the original location.

Market value is defined as the estimated amount for which the subject of appraisal should be traded on the appraisal date between a willing buyer and a willing seller in an arm's length transaction in which each of the parties had acted knowledgeably, prudently and without compulsion.

V. Appraisal Date

The appraisal date of this project is 30 June 2013.

In order to issue an up-to-date conclusion of appraisal and make the appraisal date as close to the date of realisation of the appraisal objective as practicable, we have negotiated with the principal in view of the nature of the economic behaviour served by the appraisal, and the principal has decided to set the appraisal date at 30 June 2013.

The appraisal date will help the realisation of the economic behaviour.

The effective pricing basises used for this appraisal include price, tax rate, fee rate, exchange rate and deposit and lending interest rate as at the appraisal date.

VI. Bases of Appraisal

We have complied with the laws and regulations of the state and local government and respective authorities, standards and bases, title ownership bases and pricing bases during this appraisal, as well as the documents and information that we have made reference to, which mainly include the following:–

(i) Behaviour bases

1. Asset Appraisal Engagement Letter dated 28 August 2013;

2. Asset Appraisal Business Engagement Letter executed between the principal and Beijing Zhuoxindahua Appraisal Co., Ltd.*（北京卓信大華資產評估有限公司）.

(ii) Principal laws and regulations bases:

1. *Company Law of the People's Republic of China*;

2. *Enterprise Income Tax Law of the People's Republic of China*;

3. *Law of the People's Republic of China on the State-Owned Assets of Enterprises*;

4. *Administrative Measures for Appraisal of State-owned Assets*, Order No. 91 of the State Council;

5. *Implementation Rules for the Administrative Measures for Appraisal of State-owned Assets*, Circular [1992] No. 36 issued by the former Office of the National State-Owned Assets Administration Bureau;

6. *Rules on Certain Issues relating to the Appraisal of State-owned Assets*, Order [2001] No. 14 of the Ministry of Finance;

7. *Notice of the General Office of the State Council on Forwarding the Opinions of the Ministry of Finance on Reforming State-owned Assets Appraisal Administration Method and Strengthening Asset Appraisal Administration Work* (Guo Ban Fa [2001] No. 102) issued by the General Office of the State Council;

8. *Provisional Measures for Transfer of State-owned Assets in Enterprises*, Order [2003] No. 3 jointly issued by the State-owned Assets Supervision and Administration Commission and the Ministry of Finance;

9. *Provisional Regulations on Monitoring and Administration of State-owned Assets*, Order [2003] No. 378 of the State Council;

10. *Provisional Measures for Administration of State-owned Assets Appraisal*, Order [2005] No. 12 of the State-owned Assets Supervision and Administration Commission;

11. *Notice on Certain Issues regarding Strengthening State-owned Enterprise Asset Appraisal Administration Work* (Guo Zi Chan Quan [2006] No. 274);

12. *Guidelines on Filing on Record for State-owned Enterprise Assets Appraisal Projects* (Guo Zi Fa Chan Quan [2013] No. 64);

13. *Accounting Standards for Business Enterprises (the "***ASBE***") – Basic Standards*, Order [2006] No. 33 of the Ministry of Finance;

14. 38 specific ASBE standards including *ASBE 1 – Inventory* (Cai Kuai [2006] No. 3);

15. *General Rules for Finance Matters of Enterprises*, Order [2006] No. 41 of the Ministry of Finance;

16. Other applicable laws and regulations.

(iii) Standards bases

1. *Assets Appraisal Standards – Basic Standards* and *Code of Ethics for Assets Appraisal – Basic Standards* (Cai Qi [2004] No. 20);

2. *Notice of the China Appraisal Society on issuing Seven Assets Appraisal Standards including Assets Appraisal Standards – Appraisal Report* (Zhong Ping Xie [2007] No. 189);

3. *Guiding Opinions on Determination of Title ownership of the Subject of Appraisal by Certified Public Appraisers* (Kuai Xie [2003] No. 18);

4. *Guide to State-owned Enterprise Assets Appraisal Report* (Zhong Ping Xie [2008] No. 218);

5. *Guide to Service Quality Control in Appraisal Institutions* (Zhong Ping Xie [2010] No. 214);

6. *Code of Ethics – Independence* (Zhong Ping Xie [2012] No. 248).

(iv) Title ownership bases

1. Vehicle Driving Licenses;

2. Other title ownership certificates.

(v) Pricing bases

1. Relevant national industry policies, industry analysis and parameters;

2. The lending rate and exchange rate published by the People's Bank of China as at the appraisal date;

3. Data published by Wind Info;

4. *Notice of the Ministry of Finance on Issuing the Provisions on the Accounting Management of Basic Construction* (Cai Jian [2002] No. 394);

5. *Joint Notice of the State Planning Commission and the Ministry of Construction on Issuing the Administration Rules for Project Survey and Design Fees* (Ji Jia Ge [2002] No. 10), jointly issued by the State Planning Commission and the Ministry of Construction;

6. *Notice of the State Planning Commission on Issuing the Provisional Rules for Bidding Agency Services Fees* (Ji Jia Ge [2002] No. 1980);

7. *Notice of the General Office of the National Development and Reform Commission regarding Certain Issues on Bidding Agency Services Fees* (Fa Gai Ban Jia Ge [2003] No. 857);

8. *Administration Rules for Construction Project Supervision and Related Services Fees* (Fa Gai Jia Ge [2007] No. 670), jointly issued by the Ministry of Construction and the National Development and Reform Commission;

9. *Notice on Regulating Certain Issues concerning Environmental Impact Assessment Fees* (Ji Jia Ge [2002] No. 125), jointly issued by the State Planning Commission and the State Environmental Protection Administration;

10. *Provisional Rules for Early Stage Consultation Fees for Construction Projects* (Ji Jia Ge [1999] No. 1283) issued by the State Planning Commission;

11. *Notice on Several Issues concerning the Implementation of Value-added Tax Reform in the PRC* (Cai Shui [2008] No. 170);

12. *Provisions on the Standards for Compulsory Retirement of Motor Vehicles*, Order [2012] No. 12 of the Ministry of Commerce;

13. *Provisional Regulations of the People's Republic of China on Vehicle Purchase Taxes*, Order [2000] No. 294 of the State Council;

14. *Mechanical and Electrical Products Pricing Manual 2013*;

15. Feasibility study report of projects and market research report provided by the company;

16. Information on estimated project investment budgets provided by the company;

17. Certain product sales agreements;

18. Other documents such as agreements and accounting receipts relating to the acquisition and use of assets by the company.

(vi) Other references

1. Breakdown of assets appraisal provided by the title holder;

2. On-site survey forms and other information collected and compiled by our appraisal staff;

3. *Common Methods and Parameters for Assets Appraisal*, 2012 edition;

4. Other information relevant to appraisal.

VII. Methods of Appraisal

In conducting the assets appraisal works, the certified asset appraiser shall analyse the applicability of three fundamental approaches for asset valuation, namely, cost approach, market approach, and income approach, and determine the most appropriate approach according to the subject of appraisal, type of appraisal, information collected, and other relevant conditions.

(i) Analysis of the applicability of appraisal approach

The income approach refers to an approach used for estimating the value of an asset by accumulating the present value as at the appraisal date derived from discounting the yearly or monthly expected income within the remaining life of the subject of valuation at an appropriate discount rate.

The cost approach refers to an approach used for estimating the value of an asset by deducting the actual depreciation, functional depreciation, and economic depreciation of the asset for valuation from the replacement cost of such asset in a new state under the existing conditions.

The market approach refers to an approach used for estimating the value of an asset by comparing the price of the subject of valuation with those of similar or comparable references available in the open market and conduct comparable adjustments.

The subject of valuation represents each asset, including inventory, machineries and equipment, installation projects for construction in progress. Each of such assets cannot generate profit individually, and therefore the income approach is not applicable. At the same time, no reference similar or comparable to the subject of valuation can be found in the open market, and therefore the market approach is not applicable to any of such assets.

The appraiser has adopted the cost approach for the subject of valuation after careful compilation, analysis, and calculation of the information and data collected from the results derived from the on-site investigation of such assets.

(ii) Appraisal process

1. Inventory

Inventory comprises raw materials, sub-contracting materials, finished goods, and production costs in progress.

This appraisal adopts different appraisal approaches by inventory types, business model, accounting treatments and investigation results to determine the value. The inventory quantity will be based on the actual quantity as at the appraisal date.

A. Sub-contracting materials

With regard to the materials processed recently, the appraisal value is determined based on the verified carrying value;

B. Raw materials

For the raw materials recently purchased, if inventory turnover is high with no damages and overstock and their carrying value approximates to their market price as at the appraisal date, then the appraisal value is determined based on the verified carrying value multiplied by actual quantity.

For raw materials purchased some time ago, the appraisal value is determined based on current market price (plus relevant expenses) multiplied by actual quantity.

For raw materials that are almost obsolete but still realisable, the appraisal value is determined based on their market realisable value. Those with no realisable value will be determined of having zero value.

C. Finished goods

The appraisal value of finished goods for normal sale is determined based on market selling price (exclusive of tax) multiplied by actual quantity after deducting their relevant business taxes and reasonable net operating profit;

Appraisal unit price = Selling price (exclusive of tax) x (1 – Operating expenses ratio – Business tax and surcharge rate – Income tax rate for operating profit – Deductible rate of net operating profit)

The appraisal value of obsolete finished goods is determined based on market realisable value.

Realisable value = Market (ex-factory) price x Residual value rate; or

Appraisal value = Weight of recoverable obsolete materials x Prevailing recoverable price of each weighed unit.

D. Production costs in progress

Upon verification, production costs in progress represent the production cost and expenses that should have been carried forward as at the end of the period, and the appraisal value is determined as zero value.

2. Non-current assets

Non-current assets comprise fixed assets, construction in progress.

(1) Fixed assets

Fixed assets comprise machineries and equipment. This appraisal adopts the cost approach to determine the appraisal value of the fixed assets after careful compilation, analysis, and calculation of the information and data collected from the results derived from the on-site investigation.

The appraisal value of machineries and equipment is primarily determined using the cost approach, except certain electronic equipment for which the market approach is adopted. The appraisal value of non-consumable machineries and equipment is determined based on their value (exclusive of tax).

The calculation formula for the appraisal value of machineries and equipment is set out as below:

Appraisal value = Replacement cost x General newness rate

A. Determination of replacement cost

For domestic standard set of machineries and equipment, their replacement cost is determined in accordance with the tax and fee regulations in the PRC and based on the original purchase price from the market, plus transportation and miscellaneous costs, installation and commissioning fee and cost of necessary auxiliary parts to bring the equipment to the condition ready for use, and other construction project expenses and capital cost calculated based on the fee rates in the region where the equipment is located or set by the competent national authorities.

For imported equipment, as the prevailing market price of such equipment is not available, we have, by reference to the relevant equipment purchase agreement, adjusted the original foreign currency purchase price to the foreign purchase price as at the appraisal date based on the PPI price index of the export country and then converted it to the RMB CIF price using the prevailing exchange rate as at the appraisal date. We then determined its replacement cost in accordance with the applicable taxation rules in the PRC by calculating the sum of such value plus import tariff, value-added tax, foreign trade handling fee, transportation and miscellaneous cost, installation and commissioning fee and cost of necessary auxiliary parts to bring the equipment to the condition ready for use, and other construction project expenses and capital cost calculated based on the fee rates in the region where the equipment is located or set by the competent national authorities.

For self-manufactured and non-standard equipment, upon verification of the nature and consumed volume of raw materials, we surveyed the construction cost (exclusive of tax) of various kinds of non-standard equipment and calculated other construction project expenses and capital cost to determine its replacement cost based on the fee rates in the region where the equipment is located or set by the competent national authorities.

The replacement cost of electronic equipment for office use is determined to be the purchase price (exclusive of tax) obtained through market quotations.

The replacement cost of vehicles is determined to be the purchase price obtained through market quotations, plus vehicle purchase tax and other reasonable expenses.

For equipment with no similar type of products for sale in the existing market, the appraisal value is determined to be the second-hand market price of the equipment of the same type.

B. Determination of newness rate

Determination of newness rate for major equipment

General newness rate = Newness rate under the useful life method x 40% + Newness rate under the surveying method x 60%

Newness rate under the useful life method = (Economic useful life – Used life)/Economic useful life x 100%

Newness rate under the surveying method = Σ Actual score value upon technical observation and analysis/100 x 100%

The newness rate under the surveying method is comprehensively analysed and determined by the appraisal staff based on their assessment of rating criteria of parameters through technical observation and analysis on various parameters and indicators of the entrusted appraisal assets after conducting a dynamic survey on the entrusted appraisal assets and also through understanding the operation, maintenance and recent major overhaul of equipments from equipment management personnel and specific operational workers during on-site visit, and taking into account of the maintenance records and daily usage condition of the entrusted appraisal assets. As the newness rate under the surveying method is based on actual usage condition determined by on-site dynamic observation, therefore, it is more reasonable and objective than the newness rate under the useful life method.

Determination of newness rate for general or low-value machineries and equipment

Newness rate = Remaining useful life/Economic useful life x 100%

Determination of newness rate for vehicles

According to the *Provisions on the Standards for Compulsory Retirement of Motor Vehicles*, Order [2012] No. 12 jointly issued by the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection, the newness rate of non-operating small and mini passenger vehicles, large sedans and self-propelled wheeled machines is determined under the mileage method. The newness rate of trailers or three-wheeled cars for carrying goods and low-speed trucks with single cylinder engine is determined under the useful life method; and the newness rate of other types of vehicles is determined under the useful life method or the mileage method, whichever is lower. (For vehicles without mileage data, we have determined their newness rate mainly using the useful life method. Also, according to the surveying method, we give each vehicle a score based on our understanding of the operating condition, usage intensity, usage frequency, day-to-day maintenance and major overhauls of the vehicle through our investigation, as well as the likelihood of early or delayed retirement and vehicle inspections, in order to determine the correction factor for the newness rate calculated under the useful life method or the mileage method and calculate the general vehicle newness rate.)

Newness rate under the useful life method = (Statutory useful life – Used life)/Statutory useful life x 100%

Newness rate under the mileage method = (Statutory driving mileage – Travelled mileage)/ Statutory driving mileage x 100%

General vehicle newness rate = Newness rate under the useful life method or mileage method x 40% + Newness rate under the surveying method x 60%

(2) Installation projects for construction in progress

Installation projects for construction in progress comprise reconstruction of BMW-N20 connection rod equipment, acquisition of BMW-B38 connection rod equipment and E3 assembly line equipment installation. This appraisal determines the appraisal values of construction in progress based on their different conditions. For construction in progress already completed and delivered for use, we have determined their appraisal values by using the cost approach in line with the valuation method for fixed assets.

For the valuation of equipment installation projects under construction, we have adopted the cost approach. The appraisal value is the sum of the verified stage of completion project cost payables (which is determined based on the stage of completion as specified in the contract and onsite inspection of the actual stage of completion) and the finance costs (which are determined based on the lending rate for the reasonable construction period and the reasonable completion period as at the reference date for valuation).

Appraisal value = verified stage of completion project cost payables + finance costs for the completion period

For the purpose of this valuation, "completion period" means the period from the commencement date of construction to the reference date for valuation.

Finance costs = (equipment acquisition expenses + installation expenses + other expenses) x (lending rate per annum x completion period (number of days) /365/2)

(iii) Conclusion for the selection of appraisal method

In view of the foregoing, the equipment and inventory of the Engine Factory are valued using the cost approach.

VIII. Implementation Procedures and Status of the Appraisal

1. To achieve the purpose of transfer of assets, the principal has determined to entrust our company to conduct an appraisal regarding the equipment (including those construction in progress) and inventory of E3 and connection rod segments for Engine Factory after meeting our company. After accepting the project entrusted, our company has confirmed the purpose of the appraisal and the value type of the subject of appraisal according to the characteristics of the economic behavior of this appraisal project, conducted a preliminary understanding regarding the specific content of the subject of appraisal and scope of appraisal, determined the appraisal date after negotiating with the principal, worked out an appraisal plan and signed the Business Appraisal Engagement letter.

2. According to the requirements of Assets Appraisal Standards – Appraisal Procedures, our company will provide to the title holder the reporting materials for assets appraisal, direct the title holder to verify the assets, and fill in the relevant forms. After completing the aforesaid preliminary preparation works, our company will organize the appraisal staff to enter into the appraisal site, commence on-site survey, conduct necessary investigation through enquiry, confirmation, verification, monitoring, survey and inspection to have an understanding of economic and technical utilization conditions and legal title status of the assets, analyze the specific conditions of the subject of appraisal, collect the enterprise's recent financial data information as well as those as at appraisal date, check whether the corporate reported appraisal information is consistent with the accounting information provided by the enterprise, verify whether all the information collected is true and complete and pay necessary attention to the legal title status of the assets.

3. According to the requirements of law, standards, and pricing basis, adopt the appropriate appraisal methods respectively based on the specific conditions of the assets, collect the market price information as the basis of its value determination reference, and conduct appraisal and estimation on the carrying value after verification to confirm the appraisal value.

4. Summarize the appraisal results, analyze the conclusions of appraisal, prepare the appraisal report, implement the internal tri-tier audit, and submit the appraisal report.

IX. Assumptions of Appraisal

The conclusions of appraisal regarding the subject of this appraisal are based on the following assumptions, pre-conditions, and limiting conditions. In the event that these pre-conditions and conditions cannot be reasonably satisfied, then there will be different degrees of changes in general in the conclusions of appraisal of this report.

1. Assuming that the entrusted appraisal assets shall remain in use in the original location subsequent to the appraisal date.

2. Assuming that both the transaction parties have equal status in terms of the assets that are to be transacted or are intended to be transacted in the market. Each of them has adequate opportunity and time to access the market information to make rational judgments regarding the transaction values of the subject of appraisal.

3. No force majeure and other unforeseeable factors that will exert significant adverse impact on enterprise.

4. The impact of inflation factor is not taken into account in this appraisal.

X. Conclusions of Appraisal

Upon the implementation of the aforesaid assets appraisal methods and procedures, for the purpose of the intended implementation of transfer of assets adopted by the principal regarding asset portfolio, the following conclusions of appraisal are formed with reference to the market value as at 30 June 2013:

Conclusions of appraisal: the total carrying value of the assets of the segment before the appraisal was RMB348,727,000, and these assets were valued at RMB385,831,800, representing an increase of RMB37,104,800, or 10.64%, of which, the inventory, with a carrying value of RMB83,243,000, was valued at RMB86,018,800, representing an increase of RMB2,775,800, or 3.33%; the machineries and equipment, with a carrying value of RMB151,895,500, was valued at RMB189,387,700, representing an increase of RMB37,492,200, or 24.68%; and the construction in progress, with a carrying value of RMB113,588,500, was valued at RMB110,425,300, representing a decrease of RMB3,163,200, or 2.78%.

Table of Summary of Appraisal Results

Unit: RMB'0,000

Item		Carrying value	Appraisal value	Increased amount	Increased rate %
		A	B	C=B-A	D=C/A
CURRENT ASSETS (INVENTORY)	**1**	**8,324.30**	**8,601.88**	**277.58**	**3.33**
NON-CURRENT ASSETS	**2**	**26,548.40**	**29,981.30**	**3,432.90**	**12.93**
Fixed assets	3	15,189.55	18,938.77	3,749.22	24.68
Construction in progress	4	11,358.85	11,042.53	-316.32	-2.78
TOTAL ASSETS	**5**	**34,872.70**	**38,583.18**	**3,710.48**	**10.64**

The summary of E3 and connection rod segments is shown as the following table:

Unit: RMB'0,000

Serial No.	Item	Carrying value	Appraisal value	Increased amount	Increased rate %
		A	B	C=B-A	D=C/A
I.	**E3 category**	**19,052.00**	**21,961.91**	**2,909.91**	**15.27**
1.1	Inventory	6,285.09	5,914.41	-370.68	-5.90
1.2	Equipment	11,212.85	14,493.71	3,280.86	29.26
1.3	Equipment under construction	1,554.05	1,553.78	-0.27	-0.02
II.	**Connection rods category**	**15,820.70**	**16,621.27**	**800.57**	**5.06**
2.1	Inventory	2,039.20	2,687.47	648.27	31.79
2.2	Equipment	3,976.70	4,445.05	468.35	11.78
2.3	Equipment under construction	9,804.80	9,488.75	-316.05	-3.22
	Total physical assets	**34,872.70**	**38,583.18**	**3,710.48**	**10.64**

XI. Explanatory Notes on Specific Matters

1. With regard to the existence of other defects concerning the principal and the title holder which may affect the conclusions of appraisal, without any specific explanation by the principal and the title holder and in the absence of any knowledge by the appraisal staff after performing the appraisal procedures, the appraiser and appraisal staff shall assume no respective responsibility.

2. The sub-contracting materials are consigned processing raw materials and stored in the sub-contracting units including Shenyang Kexiang Automobile Component Co., Ltd.*（瀋陽科翔汽車零部件有限公司）and Shenyang ChenFa Automobile Component Co., Ltd.*（瀋陽晨發汽車零件有限公司）. Upon verification, some enterprises for sub-contracting materials have not been offsetting the accounts payable – appraisal for reason that the enterprises have not settled the amounts with the sub-contracting units, and thus the appraiser has limitations in performing written confirmations and audit procedures, resulting that the appraiser is unable to verify the quantity and carrying value of sub-contracting materials nor is able to verify the accounts payable – appraisal amount that should be offset. As at the appraisal date, the carrying value of sub-contracting materials amounted to RMB12,412,155.70 (before deduction of the provision for impairment of inventory) and the net amount of sub-contracting materials was RMB12,412,155.70. Since any possible impact of the aforesaid matters on the result of this appraisal has not been taken into account, their carrying values were presented for purpose of the appraisal. The users of the report should note that if the physical assets are being dealt with separately, the value of the assets may be inflated.

3. The conclusions of this appraisal does not take into account the impact of those matters that may affect the conclusions of appraisal, such as mortgage and warranty issues that may be undertaken in the future, and special transaction parties that may increase or decrease the price paid, nor has it taken into account the impact of change in national macroeconomic policy as well as natural force and other force majeure on the value of the subject of appraisal. In the event of any change of the aforesaid conditions as well as other assumptions and pre-conditions of the going concern principle as abided during the appraisal, the conclusions of appraisal will, in general, become invalid and the users of the report should not use this appraisal report, otherwise they will bear all the consequences arising therefrom.

4. The conclusions of this appraisal does not take into account any tax liability that arises as a result of appreciation or depreciation in the appraisal and the users of this project appraisal report should consider the impact of the relevant tax liability when using the appraisal report.

5. During the period from the appraisal date to the date of appraisal report, the principal and the title holder did not report any subsequent event that will have significant impact, nor was the appraiser be able to discover any subsequent event that will have a significant impact.

6. In the event of any material changes in the quantity of assets at the date of appraisal report or during the effective period of the appraisal report, the assets amount should be adjusted accordingly. In the event that there are changes in the pricing standard of assets and has an obvious impact on the conclusion of assets appraisal, then a re-assessment should be conducted.

For the treatment of the said specific matters and the possible impact of these specific matters on the conclusions of appraisal, the appraisal report users should pay attention to the impact of these specific matters on economic behavior.

XII. Limitations on Use of Appraisal Report

1. The appraisal report shall only be used for appraisal purpose and applied as specified.

2. The appraisal report shall be only used by the users of the appraisal report as specified therein, unless otherwise as required in the PRC laws and regulations.

3. The appraisal report can only be used officially after obtaining the prior approval from the relevant competent authorities if the appraisal report is required to be reviewed by or filed with the competent authorities in accordance with the current PRC statutory requirements.

4. Save as otherwise provided by the laws and regulations and agreed by the relevant parties, the contents of the appraisal report shall not be extracted, referenced to or disclosed to public media without the consent from the appraisal institution.

5. The conclusions of appraisal can be used for a validity period of one year, i.e. from the date of appraisal of 30 June 2013 as stated therein to 29 June 2014 and the appraisal report shall not be used after the validity period as stated therein.

6. The right to construe the appraisal report shall be vested on the appraisal institution of this project only, save as otherwise required by the PRC laws and regulations.

XIII. Date of Appraisal Report

5 December 2013.

(No text on this page)

Legal representative of the Appraiser:	(Lin Mei)
PRC Certified Asset Appraiser:	(Chang Ranting)
PRC Certified Asset Appraiser:	(Wang Xi)

Beijing Zhuoxindahua Appraisal Co., Ltd.*
（北京卓信大華資產評估有限公司）
5 December 2013

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or in this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors and chief executives of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives had interests and short positions in the Shares, the underlying Shares and/ or the debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules:

Name of Director	Long position/ short position	Nature of interest	Number and class of Shares	Approximate percentage of shareholding (5)
Mr. Wu Xiao An (also known as Mr. Ng Siu On) (1)(4)(6)	Long position	Beneficial owner	8,320,041 ordinary	0.64%
	Long position	Trustee and interest in a controlled corporation	71,191,090 ordinary	5.52%
Mr. Wang Yunxian (2)(4)(6)	Long position	Beneficial owner	6,471,143 ordinary	0.50%
	Long position	Trustee and interest in a controlled corporation	71,191,090 ordinary	5.52%
Mr. Li Peiqi (3)(4)	Long position	Beneficial owner	6,471,143 ordinary	0.50%

Notes:

(1) Mr. Wu Xiao An is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interests in Lead In. Mr. Wu Xiao An is also the beneficial owner of 8,320,041 Shares, representing approximately 0.64% of the issued share capital of the Company, in which 4,992,025 Shares are held under the fixed trust. Mr. Wu Xiao An is deemed or taken to be interested in approximately 5.52% of the issued share capital of the Company.

(2) Mr. Wang Yunxian is a trustee of the fixed trust and the discretionary trust under the Incentive Scheme and holds 50% interest in Lead In. Mr. Wang Yunxian is also the beneficial owner of 6,471,143 Shares, representing approximately 0.50% of the issued share capital of the Company, in which 3,882,686 Shares are held under the fixed trust. Mr. Wang Yunxian is deemed or taken to be interested in approximately 5.52% of the issued share capital of the Company.

(3) Mr. Li Peiqi is the beneficial owner of 6,471,143 Shares, representing approximately 0.50% of the issued share capital of the Company, in which 3,882,686 Shares are held under the fixed trust.

(4) The beneficiaries of the fixed trust comprise certain Directors including Mr. Wu Xiao An, Mr. Wang Yunxian and Mr. Li Peiqi, 48 senior management and employees of the Group. The above Directors are taken or deemed to be interested in their entitlement in the Shares held by Lead In.

(5) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at the Latest Practicable Date.

(6) The Incentive Scheme is an incentive scheme established by the Company in 2011 before the global offering of the Shares which serves as a retention tool and to align the interests of certain Directors, management, employees and the relevant personnel of the Group. Lead In was incorporated for the purpose of holding the Shares on trust for the beneficiaries pursuant to the Incentive Scheme. Further details of the Incentive Scheme are contained in the Prospectus.

Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, each of the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Company and were recorded in the register to be kept under section 336 of the SFO:

Name of Shareholder	Nature of interest	Number and class of Shares	Approximate percentage of shareholding (7)
Brilliance Investment Holdings Limited	Beneficial owner	400,000,000 ordinary	31.07%
Brilliance China (1)	Interest in a controlled corporation	400,000,000 ordinary	31.07%
Huachen (2)	Interest in a controlled corporation	400,000,000 ordinary	31.07%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000 ordinary	31.07%
Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited (3)	Interest in a controlled corporation	400,000,000 ordinary	31.07%
Sichuan Yibin Pushi Group Co., Ltd. (4)	Interest in a controlled corporation	400,000,000 ordinary	31.07%
Sichuan Province Yibin Wuliangye Group Co., Ltd. (5)	Interest in a controlled corporation	400,000,000 ordinary	31.07%
Lead In (6)	Trustee	71,191,090 ordinary	5.52%

Notes:

(1) Brilliance Investment Holdings Limited is wholly-owned by Brilliance China as at the Latest Practicable Date and Brilliance China is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Brilliance Investment Holdings Limited is interested.

(2) Brilliance China is owned as to approximately 42.48% by Huachen as at the Latest Practicable Date and Huachen is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Brilliance Investment Holdings Limited is interested.

(3) Xinhua Investment Holdings Limited is a direct wholly-owned subsidiary of Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited as at the Latest Practicable Date and Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment Holdings Limited is interested.

(4) Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited is a direct non wholly-owned subsidiary of Sichuan Yibin Pushi Group Co., Ltd as at the Latest Practicable Date and Sichuan Yibin Pushi Group Co., Ltd is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment Holdings Limited is interested.

(5) Sichuan Yibin Pushi Group Co., Ltd is a direct wholly-owned subsidiary of Sichuan Province Yibin Wuliangye Group Co., Ltd as at the Latest Practicable Date and Sichuan Province Yibin Wuliangye Group Co., Ltd is deemed or taken to be interested in approximately 31.07% of the issued share capital of the Company in which Xinhua Investment Holdings Limited is interested.

(6) Lead In is a trustee of the fixed trust and discretionary trust under the Incentive Scheme and is deemed or taken to be interested in approximately 5.52% of the issued share capital of the Company.

(7) These percentages are calculated on the basis of 1,287,407,794 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, there was no other person (other than a Director or chief executive of the Company or a member of the Group) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors has entered into a service agreement with the Company on 26 February 2013 for a term of three years commencing from 13 March 2013, and such service agreements may be terminated in accordance with the terms of the service agreements.

Each of the non-executive and independent non-executive Directors was appointed to the Board pursuant to the respective letters of appointment dated 26 February 2013, for an initial term of three years commencing from 13 March 2013, and such appointment may be terminated in accordance with the terms of the letters of appointment.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up, acquired by or disposed of or leased to any member of the Group or are proposed to be acquired by or disposed of or leased to any member of the Group.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

5. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates have any interest in businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

6. DIRECTORSHIP AND EMPLOYMENT OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, save as disclosed below, none of the Directors were a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the SFO:

Name of Director	Name of company which had such discloseable interest or short position	Position within such company
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	Brilliance China	chairman and executive director
	Huachen	director
	Brilliance Investment Holdings Limited	director
Mr. Wang Yunxian	Xinhua Investment Holdings Limited	director
Mr. Li Peiqi	Xinhua Investment Holdings Limited	director
Mr. Qi Yumin	Brilliance China	chief executive officer, president and executive director
	Huachen	chairman, president and executive director

7. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up.

8. EXPERTS

(a) The following sets out the qualifications of the experts who have given their opinions or advice as contained in this circular:

Name	Qualifications
Octal Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition
Beijing Zhuoxindahua Appraisal Co., Ltd.* （北京卓信大華資產評估有限公司）	an independent PRC valuer qualified to carry out valuations in the PRC

(b) As at the Latest Practicable Date, none of the above experts have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) As at the Latest Practicable Date, none of the above experts have any interest, direct or indirect, in any asset which have been since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up, acquired by or disposed of or leased to any member of the Group or are proposed to be acquired by or disposed of or leased to any member of the Group.

(d) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, statement or advice and references to its name in the form and context in which they are included.

(e) The letter and recommendation given by Octal Capital Limited as independent financial adviser are given as of the date of this circular for incorporation herein.

(f) The valuation report given by Beijing Zhuoxindahua Appraisal Co., Ltd.*（北京卓信大華資產評估有限公司）as independent valuer was issued on 5 December 2013 for incorporation in this circular.

9. LITIGATION

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or claims of material importance known by the Directors to be pending or threatened against any member of the Group.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong during normal business hours from the date of this circular up to and including 15 January 2014:

1. the memorandum and articles of association of the Company;

2. the Acquisition Agreement;

3. the Lease Agreement;

4. the Materials Procurement Agreement;

5. the Framework Agreement;

6. the New Lease Agreement;

7. the letter from the Independent Board Committee, the text of which is set out on page 14 of this circular; and

8. the letter from the Independent Financial Adviser, the text of which is set out on pages 15 to 27 of this circular.

11. MISCELLANEOUS

(1) The company secretary of the Company is Ms. Fung Sam Ming. Ms. Fung is an associate of The Institute of Chartered Secretaries and Administrators.

(2) The registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(3) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(4) In case of any inconsistency, the English text of this circular shall prevail over its Chinese text.

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)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Xinchen China Power Holdings Limited (the "**Company**") will be held at Victoria I, Second Floor, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Thursday, 16 January 2014 at 9:00 a.m. for the following purposes:

ORDINARY RESOLUTIONS

To consider and, and if thought fit, pass the following resolutions as ordinary resolutions of the Company:

"**THAT**:

(a) the acquisition agreement (the "**Acquisition Agreement**") (a copy of which has been produced to the EGM marked "A" and initialled by the chairman of the EGM for the purpose of identification) dated 25 November 2013 entered into between Mianyang Xinchen Engine Co., Ltd.*（綿陽新晨動力機械有限公司）as the purchaser ("**Mianyang Xinchen**", an indirect wholly-owned subsidiary of the Company) and Huachen Automotive Group Holdings Company Limited*（華晨汽車集團控股有限公司）("**Huachen**", a deemed connected person of the Company) as the seller, pursuant to which Mianyang Xinchen agreed to purchase and Huachen agreed to sell certain production lines and inventories for a total consideration of RMB451,423,200 (equivalent to approximately HK$572,178,906), and all transactions contemplated thereunder be and hereby approved; and

(b) any director of the Company (the "**Director**") be and is hereby authorized to, for and on behalf of the Company to do all such things and exercise all powers which he considers necessary, desirable or expedient in connection with the Acquisition Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder, including without limitation the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements, and any Director and the company secretary of the Company or two Directors be authorized to affix the common seal of the Company (if required) on any document or deed as they consider appropriate."

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

Hong Kong, 31 December 2013

Notes:

(1) The record date for determining eligibility to attend and vote at the EGM will be Wednesday, 15 January 2014. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 14 January 2014.

(2) Any member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and on a poll, vote instead of him in accordance with the memorandum and articles of association of the Company. A proxy need not be a member of the Company.

(3) To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be completed and deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or any adjourned meeting thereof (as the case may be) at which the person named in such instrument proposes to vote.

(4) A form of proxy for use at the EGM is enclosed herewith.