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POWER XINCHEN

新 晨 动 力

XINCHEN CHINA POWER HOLDINGS LIMITED

新 晨 中 國 動 力 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1148)

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

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



A letter from the Board is set out on pages 6 to 24 of this circular. A letter from the Independent Board Committee is set out on page 25 of this circular.

A letter from Octal Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 49 of this circular.

A notice convening the Extraordinary General Meeting to be held at Victoria Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 11 December 2015 at 9:00 a.m. is set out on pages 57 to 61 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the office of the branch registrar of Xinchen China Power Holdings Limited 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 but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting (as the case may be) should you so wish.

16 November 2015

CONTENTS

| | <i>Page</i> |
|------------------------------------------------------------------------------------------------|-------------|
| Definitions | 1 |
| Letter from the Board | |
| I. Introduction | 6 |
| II. Renewal of the Continuing Connected Transactions | 7 |
| III. Proposed Caps and Historical Transaction Value | 13 |
| IV. Reasons for and benefits of entering into the Continuing Connected Transactions | 17 |
| V. Information of the Parties involved | 18 |
| VI. Listing Rules Implications | 21 |
| VII. General | 22 |
| VIII. Extraordinary General Meeting | 23 |
| IX. Recommendations | 23 |
| X. Additional Information | 24 |
| Letter from the Independent Board Committee | 25 |
| Letter from the Independent Financial Adviser | 26 |
| Appendix – General Information | 50 |
| Notice of Extraordinary General Meeting | 57 |

DEFINITIONS

In this circular, unless otherwise defined, terms used herein shall have the following meaning:

| | |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “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; |
| “Brilliance China Group” | Brilliance China and its subsidiaries; |
| “Brilliance China Sale Agreement” | the framework agreement entered into between the Company and Brilliance China on 13 October 2015 in relation to the sale of engine and engine components to Brilliance China Group; |
| “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; |
| “connected persons” | has the meaning ascribed thereto in the Listing Rules; |
| “Continuing Connected Transactions” | the transactions between members of the Group and the connected persons as set out in the section headed “Renewal of the Continuing Connected Transactions” in the Letter from the Board of this circular; |
| “controlling shareholder” | has the meaning ascribed thereto in the Listing Rules; |
| “Director(s)” | the director(s) of the Company; |
| “Existing Caps” | the existing annual caps of the Continuing Connected Transactions; |

DEFINITIONS

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| “Extraordinary General Meeting” | the extraordinary general meeting of the Company to be convened for the purpose of approving (i) the Continuing Connected Transactions; and (ii) the Proposed Caps; |
| “Group” | the Company and its subsidiaries; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC; |
| “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; |
| “Huachen Sale Agreement” | the framework agreement entered into between the Company and Huachen on 13 October 2015 in relation to the sale of engine and engine components to Huachen Group; |
| “Independent Board Committee” | the independent committee of the Board, comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to (i) the Continuing Connected Transactions; and (ii) the Proposed Caps; |
| “Independent Financial Adviser” | Octal Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Continuing Connected Transactions; and (ii) the Proposed Caps; |

DEFINITIONS

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| “Independent Shareholders” | Shareholder(s) other than Brilliance China and its associates in respect of the Continuing Connected Transactions between the Group and Brilliance China Group and Huachen Group or shareholder(s) other than Wuliangye and its associates in respect of the Continuing Connected Transactions between the Group and Wuliangye Group; |
| “Latest Practicable Date” | 11 November 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein; |
| “Listing Date” | 13 March 2013, the date the Shares first commenced dealing on the Stock Exchange; |
| “Listing Rules” | Rules Governing the Listing of Securities on the Stock Exchange; |
| “Mianyang Huarui” | Mianyang Huarui Automotive Company Limited* (綿陽華瑞汽車有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of Huachen; |
| “Mianyang Huaxiang” | Mianyang Huaxiang Machinery Manufacturing Co., Ltd.* (綿陽華祥機械製造有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of Huachen; |
| “Mianyang Xincheng” | Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) (including its branches), a company incorporated in the PRC and a wholly-owned subsidiary of the Company; |
| “PRC” | The People’s Republic of China and only for the purpose of this circular, does not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan; |
| “Proposed Caps” | the estimated annual monetary value of the Continuing Connected Transactions for the three financial years ending 31 December 2018; |

DEFINITIONS

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| “Prospectus” | the prospectus issued by the Company dated 28 February 2013 relating to the global offering of the Shares and the listing of the Shares on the Main Board of the Stock Exchange; |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); |
| “Share(s)” | ordinary share(s) in the Company with a nominal value of HK\$0.01 each; |
| “Shareholder(s)” | holder(s) of Shares; |
| “Shenyang Brilliance Power” | Shenyang Brilliance Power Train Machinery Co., Ltd.* (瀋陽華晨動力機械有限公司), a company established in the PRC and a non wholly-owned subsidiary of Huachen; |
| “Shenyang Jinbei” | Shenyang Brilliance JinBei Automobile Co., Ltd.* (瀋陽華晨金杯汽車有限公司), a company established in the PRC and a non wholly-owned subsidiary of Brilliance China; |
| “Sichuan Pushi” | Sichuan Yibin Pushi Automotive Components Co., Ltd.* (四川省宜賓普什汽車零部件有限公司), a company established in the PRC and a wholly-owned subsidiary of Wuliangye; |
| “Sichuan Pushi Purchase Agreement” | the framework agreement entered into between Mianyang Xincheng and Sichuan Pushi on 13 October 2015 in relation to the purchase of engine components from Sichuan Pushi; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Wuliangye” | Sichuan Province Yibin Wuliangye Group Co., Ltd.* (四川省宜賓五糧液集團有限公司), a state-owned company incorporated in the PRC and a controlling shareholder of the Company; |
| “Wuliangye Group” | Wuliangye and its subsidiaries; |

DEFINITIONS

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| “Wuliangye Purchase Agreement” | the Sichuan Pushi Purchase Agreement and the Xinhua Combustion Engine Purchase Agreement; |
| “Xing Yuan Dong” | Shenyang XingYuanDong Automobile Component Co., Ltd.* (瀋陽興遠東汽車零部件有限公司), a company established in the PRC and a wholly-owned subsidiary of Brilliance China; |
| “Xinhua Combustion Engine” | Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited* (綿陽新華內燃機股份有限公司), a joint-stock company established in the PRC and a non wholly-owned subsidiary of Wuliangye; |
| “Xinhua Combustion Engine Purchase Agreement” | the framework agreement entered into between Mianyang Xincheng and Xinhua Combustion Engine on 13 October 2015 in relation to the purchase of engine components from Xinhua Combustion Engine; |
| “HK\$” | Hong Kong dollar(s), the lawful currency of Hong Kong; |
| “RMB” | Renminbi, the lawful currency of the PRC; and |
| “%” | per cent. |

* for identification purpose only

LETTER FROM THE BOARD

POWER XINCHEN

新 晨 動 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)

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. Tang Qiao

Independent non-executive Directors:

Mr. Chi Guohua

Mr. Wang Jun

Mr. Huang Haibo

Mr. Wang Songlin

Registered office:

Clifton House

75 Fort Street

PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

Head office and principal

place of business:

Suites 1602-05

Chater House

8 Connaught Road Central

Hong Kong

16 November 2015

To all Shareholders

Dear Sir/Madam,

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

On 13 October 2015, the Board announced that the Group entered into framework agreements relating to, inter alia, the sale of engines and engine components to Huachen Group and Brilliance China Group and the purchase of engine components from certain subsidiaries of Wuliangye.

LETTER FROM THE BOARD

An Independent Board Committee, comprising Mr. Chi Guahua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, all of whom are independent non-executive Directors, has been formed to advise the Independent Shareholders as to the Continuing Connected Transactions and the Proposed Caps. The letter from the Independent Board Committee setting out its advice and recommendations to the Independent Shareholders on the Continuing Connected Transactions and the Proposed Caps is set out on page 25 of this circular.

Octal Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Proposed Caps. The letter from the Independent Financial Adviser setting out its advice and recommendations to the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions and the Proposed Caps is set out on pages 26 to 49 of this circular.

The purpose of this circular is to provide Shareholders with details of the Continuing Connected Transactions and the Proposed Caps and a notice to Shareholders convening the Extraordinary General Meeting to approve the Continuing Connected Transactions and the Proposed Caps.

II. RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

1. Sale of engines and engine components to Huachen Group

Background

As stated in the Prospectus, the Group supplied different types of gasoline engines to Huachen, Shenyang Brilliance Power, Mianyang Huarui and Mianyang Huaxiang. The Group also supplied engine components to Huachen, Mianyang Huarui and Mianyang Huaxiang.

LETTER FROM THE BOARD

Huachen Sale Agreement

- Date : 13 October 2015
- Parties : (1) The Company, as the seller; and
(2) Huachen, as the purchaser
- Term : The Huachen Sale Agreement shall be for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Huachen Sale Agreement is terminated prior to its expiry date, the agreement shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
- Nature of Transactions : Pursuant to the agreement, the Group agreed to sell engines and engine components to Huachen Group.
- Consideration : The price for each sale of engine and engine components to Huachen Group is determined by reference to the prevailing market price.

Pricing policy

Prevailing market price means the price at which the same type of products is sold to independent third party customers on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent customers for products of comparable quality, quantity and specifications. In any event, terms of each sale to Huachen Group will be no less favourable than the terms which can be obtained from independent third party customers for selling products of comparable quality, quantity and specifications.

LETTER FROM THE BOARD

2. Sale of engines and engine components to Brilliance China Group

Background

As stated in the Prospectus, the Group supplied gasoline engines and various types of engine components to Shenyang Jinbei and/or Xing Yuan Dong.

Brilliance China Sale Agreement

- Date : 13 October 2015
- Parties : (1) The Company, as the seller; and
(2) Brilliance China, as the purchaser
- Term : The Brilliance China Sale Agreement shall be for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Brilliance China Sale Agreement is terminated prior to its expiry date, the agreement shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
- Nature of Transactions : Pursuant to the agreement, the Group agreed to sell engines and engine components to Brilliance China Group.
- Consideration : The price for each sale of engine and engine components to Brilliance China Group is determined:
- (i) by reference to the prevailing market price; or
 - (ii) where (i) is not appropriate or applicable, at a price to be agreed between the Group and Brilliance China Group upon the basis of the principle of “cost plus”.

LETTER FROM THE BOARD

Pricing policy

Where the price is determined by reference to the prevailing market price, prevailing market price means the price at which the same type of products is sold to independent third party customers on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent customers for products of comparable quality, quantity and specifications. In any event, terms of each sale to Brilliance China Group will be no less favourable than the terms which can be obtained from independent third party customers for selling products of comparable quality, quantity and specifications.

Under pricing term (ii), cost plus is determined based on the raw material costs and production costs to be incurred for the production of engines and engine components plus anticipated reasonable profits. The margin to be charged by the Group is expected to be comparable with the level of profits derived from the sale of similar engines and engine components to independent third parties.

The cost plus method applies to cases where the relevant product of the Group is tailor made for use by Brilliance China Group for further processing for manufacturing automobiles and thus no prevailing market price of the same product is available. Save for the sale of N20 engines to Shenyang Jinbei where the pricing will be based on cost plus approach, the pricings of all other transactions under the Brilliance China Sale Agreement (including sales of engines with capacities ranging from 1.6 litres to 3 litres and engine components including crankshafts, connecting rods, computer boards and oxygen sensors) will be determined on prevailing market price approach.

When determining the prices of its products under the cost plus approach, the Group initially obtains the quotations of the materials and components required for manufacturing from its suppliers which will then passed to the Purchasing Department for approval. After the quotations having been approved, the information needs to be passed to the Financial Control Division and the chief financial officer, which will consider and discuss internally in light of other cost components obtained including costs of labour, processing, transportation and logistics and will then determine and approve the margin which has to be acceptable to the Group and Brilliance China Group.

3. Purchase of engine components from Sichuan Pushi and Xinhua Combustion Engine

Background

As stated in the Prospectus, the Group purchased various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Sichuan Pushi and/or Xinhua Combustion Engine.

LETTER FROM THE BOARD

(a) *Sichuan Pushi Purchase Agreement*

- Date : 13 October 2015
- Parties : (1) Mianyang Xincheng, as the purchaser; and
(2) Sichuan Pushi, as the seller
- Term : The Sichuan Pushi Purchase Agreement shall be for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Sichuan Pushi Purchase Agreement is terminated prior to its expiry date, the agreement shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
- Nature of Transactions : Pursuant to the agreement, Mianyang Xincheng agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Sichuan Pushi.
- Consideration : The price for each purchase of engine components from Sichuan Pushi is determined by reference to the prevailing market price.

Pricing policy

Prevailing market price means the price at which the same type of products is obtained from independent third party suppliers on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, Mianyang Xincheng will make reference to the price quotations obtained from other independent suppliers for products of comparable quality, quantity and specifications. In any event, terms of each purchase from Sichuan Pushi will be no less favourable than the terms which can be obtained from independent third party suppliers for purchasing products of comparable quality, quantity and specifications.

LETTER FROM THE BOARD

(b) *Xinhua Combustion Engine Purchase Agreement*

- Date : 13 October 2015
- Parties : (1) Mianyang Xincheng, as the purchaser; and
(2) Xinhua Combustion Engine, as the seller
- Term : The Xinhua Combustion Engine Purchase Agreement shall be for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Xinhua Combustion Engine Purchase Agreement is terminated prior to its expiry date, the agreement shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules.
- Nature of transactions : Pursuant to the agreement, Mianyang Xincheng agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Xinhua Combustion Engine.
- Consideration : The price for each purchase of engine components from Xinhua Combustion Engine is determined by reference to the prevailing market price.

Pricing policy

Prevailing market price means the price at which the same type of products is obtained from independent third party suppliers on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, Mianyang Xincheng will make reference to the price quotations obtained from other independent suppliers for products of comparable quality, quantity and specifications. In any event, terms of each purchase from Xinhua Combustion Engine will be no less favourable than the terms which can be obtained from independent third party suppliers for purchasing products of comparable quality, quantity and specifications.

LETTER FROM THE BOARD

III. PROPOSED CAPS AND HISTORICAL TRANSACTION VALUE

Existing Caps and historical transaction value

Resolutions in respect of the Continuing Connected Transactions and the Proposed Caps shall be put forward to the Independent Shareholders at the Extraordinary General Meeting seeking their approval for the Continuing Connected Transactions and the Proposed Caps set opposite to each of the Continuing Connected Transactions set out in the table headed “The Proposed Caps” below. The Company shall comply with the applicable requirements under the Listing Rules in the event that any of the monetary value exceeds the Proposed Caps set out in the table headed “The Proposed Caps” below.

The following table sets out (i) the Existing Caps of the Continuing Connected Transactions for the period from the Listing Date to 31 December 2013 and each of the two financial years ending 31 December 2015; and (ii) the actual sales/purchases of the Continuing Connected Transactions for the period from the Listing Date to 31 December 2013, the financial year ended 31 December 2014 and the six months ended 30 June 2015:

| Continuing Connected Transactions | Major type of products | For the period from 13 March 2013 to 31 December 2013 | | For the financial year ended 31 December 2014 | | For the financial year ending 31 December 2015 | For the six months ended 30 June 2015 |
|----------------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------|------------------------------------------------|--------------------------------------------------|------------------------------------------------|------------------------------------------------------------|---------------------------------------------------|
| | | Existing Cap <i>(RMB'000)</i> | Actual sales/ purchases <i>(RMB'000)</i> | Existing Cap <i>(RMB'000)</i> | Actual sales/ purchases <i>(RMB'000)</i> | Existing Cap <i>(RMB'000)</i> | Actual sales/ purchases <i>(RMB'000)</i> |
| 1. Sale of engines and engine components to Huachen Group | Engines and engine components | 774,100 | 763,982 | 868,600 | 682,984 | 1,044,300 | 293,403 |
| 2. Sale of engines and engine components to Brilliance China Group | Engines and engine components | 501,000 | 372,645 | 574,900 | 337,699 | 667,600 | 242,781 |
| 3. Purchase of engine components from Sichuan Pushi and Xinhua Combustion Engine | Engine components | 192,900 | 184,572 | 231,800 | 183,172 | 268,700 | 42,350 |

LETTER FROM THE BOARD

The Proposed Caps

The following table sets out the Proposed Caps for the three financial years ending 31 December 2018:

| Continuing Connected Transactions | Major type of products | For the financial year ending 31 December | | |
|--------------------------------------------------------------------|----------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|
| | | 2016 Proposed Cap <i>(RMB'000)</i> | 2017 Proposed Cap <i>(RMB'000)</i> | 2018 Proposed Cap <i>(RMB'000)</i> |
| 1. Sale of engines and engine components to Huachen Group | Engines and engine components | 1,374,440 | 1,442,263 | 2,118,086 |
| 2. Sale of engines and engine components to Brilliance China Group | Engines and engine components | 769,997 | 808,991 | 848,781 |
| 3. (a) Purchase of engine components from Sichuan Pushi | Engine components | 28,550 | 30,000 | 31,500 |
| (b) Purchase of engine components from Xinhua Combustion Engine | Engine components | 180,850 | 186,870 | 193,180 |
| | <i>Subtotal of 3(a) and 3(b)</i> | 209,400 | 216,870 | 224,680 |
| | | 209,400 | 216,870 | 224,680 |

Basis for determining the Proposed Caps

The Proposed Caps for the Huachen Sale Agreement were based on the following:

- (i) The expected surge in demand for the Group's BM15 series engines in the second half of the 2015 as a result of the launch of a brand new SUV by Huachen Group in May 2015 which was well-received by the market and has achieved a sales record of approximately 15,000 units within the first three months after launch. The Company expects the sales volume of the BM15 series engines will increase considerably and contribute significantly to the revenue of the Group for the three financial years ending 31 December 2018;
- (ii) The estimated increase in the number of vehicles to be manufactured by Huachen Group under its existing product lines and new models planned to be launched in accordance with its production plans for the three financial years ending 31 December 2018;

LETTER FROM THE BOARD

- (iii) The estimated increase in market demand of Huachen Group's vehicles for the three financial years ending 31 December 2018 in light of the following factors:
 - (a) the anticipated growth in sales of Huachen Group's vehicles in domestic and overseas markets following new models or upgraded versions of certain existing sedans, SUVs, MPVs and new premium pickup trucks being rolled out in the domestic and overseas markets in the next three years;
 - (b) the anticipated growth in the export of CKD (completely knock down) of certain models to Iran by Huachen Group and the expansion of such export to new markets such as Thailand and Brazil in the near future;
 - (c) the anticipated growth in sales of Huachen Group's vehicles in domestic market following the decision of the executive meeting of the State Council to cut the tax rate on purchases of vehicles with engine capacities of 1.6 litres and below from 1 October 2015 to 31 December 2016 and to implement policies to support new energy and low-emission vehicle development; and
 - (d) the anticipated growth in sales of Huachen Group's vehicles in the mid-western regions of the PRC in view that the car ownership level in these regions is relatively low and these regions are markets with significant growth potentials for Huachen Group;
- (iv) The estimated extra demand of the Group's engines in 2018 as a result of the phasing out of the older inefficient engine models to be replaced by the Group's new higher-efficient engine models subsequent to the implementation of the revised "Fuel Consumption Limits for Passenger Cars"; and
- (v) A buffer of 10% was included on top of the estimated sales to Huachen Group for each of the three financial years ending 31 December 2018.

LETTER FROM THE BOARD

The Proposed Caps for the Brilliance China Sale Agreement were based on the following:

- (i) The estimated increase in the number of vehicles to be manufactured by Brilliance China Group under its existing product lines and new models planned to be launched in accordance with its production plans for the three financial years ending 31 December 2018;
- (ii) The estimated increase in market demand of Brilliance China Group's vehicles for the three financial years ending 31 December 2018 in light of the following factors:
 - (a) the anticipated growth in sales of Brilliance China Group's vehicles in domestic and overseas markets following upgraded version or diesel version of certain existing minibuses and MPVs being rolled out in the domestic and overseas markets in the next few years and the proportion and absolute amount of export (to Thailand, Malaysia, Egypt and others) have been increasing as noted from the annual report of Brilliance China for the year ended 31 December 2014;
 - (b) the estimated increase in demand of N20 engines for the manufacturing of J11 premium MPVs rolled out by Brilliance China Group a few months ago; and
 - (c) given that the expected economic growth in the PRC may drop below the target growth rate, the Company is of the view that the PRC government may implement policies in near future to revive the automobile market in the PRC as one of the means to promote economic growth and restore growth momentum; and
- (iii) A buffer of 10% was included on top of the estimated sales to Brilliance China Group for each of the three financial years ending 31 December 2018.

LETTER FROM THE BOARD

The Proposed Caps for the Wuliangye Purchase Agreement were based on the following:

- (i) The estimated increase in the number of engines to be manufactured by the Group under its existing product lines and new models planned to be launched based on confirmed orders and discussions between the Group and its customers regarding their plans for the three financial years ending 31 December 2018;
- (ii) The anticipated growth in demand of the Group's engines and engine components from both connected and independent customers in view that tighter emissions standards will be implemented in due course in the PRC and the new products of the Group can comply with the expected required standards and the Company is working with automotive manufacturer(s) to explore overseas markets, which may have a less stringent requirement on emission, for selling some of the existing models of engines;
- (iii) The PRC government may implement policies in near future to revive the automobile market in the PRC as one of the means to promote economic growth and restore growth momentum; and
- (iv) A buffer of 10% was included on top of the estimated purchases from Wuliangye Group for each of the three financial years ending 31 December 2018.

IV. REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

In the ordinary course of business of the Group, the Group sells engines produced by it and also engine components to Huachen Group and Brilliance China Group. The Group also purchases various types of engine components from Wuliangye Group.

The Continuing Connected Transactions are entered into for the following reasons:

- The Group sells its engines to Huachen Group for use in manufacturing Zhonghua autos, a wholly-owned business operated by Huachen Group. Such engines are developed and produced according to the specification required by Huachen.

LETTER FROM THE BOARD

- The Group sells its engines to Brilliance China Group for use in manufacturing Jinbei minibuses, a non wholly-owned business operated by Brilliance China Group. Such engines are developed and produced according to the specification required by Brilliance China.
- The Group sells N20 engines to Brilliance China Group for use in manufacturing new premium MPV, which broadens the customer base and increases the demand for this engine.
- Engine components supplied by certain members of the Wuliangye Group are produced based on specifications provided by the Group and used for the production of engines of the Group or for sale to customers of the Group for repair and maintenance purposes.

The Directors (excluding directors who had abstained from voting on certain resolutions) consider the Continuing Connected Transactions to be in the interests of the Company and the Shareholders as a whole; on normal commercial terms or better and in the ordinary and usual course of business of the Group; and that the terms of the relevant agreements (including the relevant caps) governing the Continuing Connected Transactions to be fair and reasonable.

V. INFORMATION OF THE PARTIES INVOLVED

The Group

The Group is principally engaged in the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles in the PRC.

The Huachen Group

Huachen

Huachen is a state-owned limited liability company established under the laws of the PRC and is wholly and beneficially 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.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Huachen owned approximately 42.48% of the issued share capital of Brilliance China and is deemed as a connected person of the Company by the Stock Exchange.

Shenyang Brilliance Power

Shenyang Brilliance Power is owned as to 51% by Huachen and as to 49% by Brilliance China, respectively and a connected person of the Company. The principal activities of Shenyang Brilliance Power include the research and development, manufacture and sale of automotive engine powertrains and components, and wholesale of automotive components.

Mianyang Huarui

Mianyang Huarui is a wholly-owned subsidiary of Huachen and a connected person of the Company. The principal activities of Mianyang Huarui include the manufacture and sale of automotive components, sale of vehicles and provision of maintenance and repair services for vehicles.

Mianyang Huaxiang

Mianyang Huaxiang is a wholly-owned subsidiary of Huachen and a connected person of the Company. The principal activities of Mianyang Huaxiang include the manufacture and sale of automotive components.

The Brilliance China Group

Brilliance China

Brilliance China is a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange. It is an investment holding company. As at the Latest Practicable Date, Brilliance China, through its wholly-owned subsidiary, owned approximately 31.17% of the issued share capital of the Company and is a connected person of the Company.

Shenyang Jinbei

Shenyang Jinbei is a non wholly-owned subsidiary of Brilliance China and a connected person of the Company. The principal activities of Shenyang Jinbei include the manufacture, assembly and sale of minibuses and automotive components.

LETTER FROM THE BOARD

Xing Yuan Dong

Xing Yuan Dong is a wholly-owned subsidiary of Brilliance China and a connected person of the Company. The principal activities of Xing Yuan Dong include the manufacture and trading of automotive components.

The Wuliangye Group

Wuliangye

Wuliangye primarily engages in the production and sale of a series of wine. It also engages in a wide range of businesses including industrial packaging, optical glass, logistics, rubber products and pharmacy. As at the Latest Practicable Date, Wuliangye, through its non wholly-owned subsidiary, owned approximately 31.17% of the issued share capital of the Company and is a connected person of the Company.

Sichuan Pushi

Sichuan Pushi is a wholly-owned subsidiary of Wuliangye and a connected person of the Company. The principal activities of Sichuan Pushi are machinery manufacturing (including automotive components and engine components) and polymer raw materials and deep processing.

Xinhua Combustion Engine

Xinhua Combustion Engine is a joint-stock company established in the PRC and a non wholly-owned subsidiary of Wuliangye and a connected person of the Company. The principal activities of Xinhua Combustion Engine are manufacture and sales of engine components, vehicles sales and provision of ancillary services and logistic services.

LETTER FROM THE BOARD

VI. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, each of Brilliance China and Wuliangye is interested in 400,000,000 and 400,000,000 Shares, representing approximately 31.17% and 31.17% of the issued share capital of the Company, respectively. Accordingly, each of Brilliance China and Wuliangye is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Huachen is interested in approximately 42.48% of the issued share capital of Brilliance China and a controlling shareholder of Brilliance China. It is deemed as a connected person of the Company by the Stock Exchange under Rule 14A.07(6) of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Continuing Connected Transactions are, on an annual basis, over 5%, the Continuing Connected Transactions are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

Mr. Wu Xiao An, an executive Director, is also the chairman and an executive director of Brilliance China and a director of Huachen (which is a controlling shareholder of Brilliance China and a deemed connected person of the Company by the Stock Exchange). Mr. Qi Yumin, a non-executive Director, is also an executive director of Brilliance China and the chairman and president of Huachen (which is a controlling shareholder of Brilliance China and a deemed connected person of the Company by the Stock Exchange). Accordingly, Mr. Wu Xiao An and Mr. Qi Yumin had abstained from voting on the Board resolutions in respect of the Continuing Connected Transactions contemplated under the Huachen Sale Agreement and the Brilliance China Sale Agreement. Mr. Wang Yunxian, an executive Director, is also a director of Mianyang Huarui (which is a wholly-owned subsidiary of Huachen) and a director of Xinhua Investment Holdings Limited (which is a wholly-owned subsidiary of Xinhua Combustion Engine). Accordingly, Mr. Wang Yunxian had abstained from voting on the Board resolutions in respect of the Continuing Connected Transactions contemplated under the Huachen Sale Agreement and the Wuliangye Purchase Agreement. Mr. Tang Qiao, a non-executive Director, is also director and president of Wuliangye. Accordingly, Mr. Tang Qiao had abstained from voting on the Board resolutions in respect of the Continuing Connected Transactions contemplated under the Wuliangye Purchase Agreement.

LETTER FROM THE BOARD

The Board confirms that (i) except for Mr. Wu Xiao An, Mr. Qi Yumin and Mr. Wang Yunxian, none of the Directors has any material interest in the Continuing Connected Transactions contemplated under the Huachen Sale Agreement; (ii) except for Mr. Wu Xiao An and Mr. Qi Yumin, none of the Directors has any material interest in the Continuing Connected Transactions contemplated under the Brilliance China Sale Agreement; and (iii) except for Mr. Wang Yunxian and Mr. Tang Qiao, none of the Directors has any material interest in the Continuing Connected Transactions contemplated under the Wuliangye Purchase Agreement. Accordingly, (i) none of the Directors, except for Mr. Wu Xiao An, Mr. Qi Yumin and Mr. Wang Yunxian, was required to abstain from voting on the Board resolutions in relation to the Continuing Connected Transactions contemplated under the Huachen Sale Agreement; (ii) none of the Directors, except for Mr. Wu Xiao An and Mr. Qi Yumin, was required to abstain from voting on the Board resolutions in relation to the Continuing Connected Transactions contemplated under the Brilliance China Sale Agreement; and (iii) none of the Directors, except for Mr. Wang Yunxian and Mr. Tang Qiao, was required to abstain from voting on the Board resolutions in relation to the Continuing Connected Transactions contemplated under the Wuliangye Purchase Agreement.

VII. GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders as to (i) the Continuing Connected Transactions; and (ii) the Proposed Caps.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Continuing Connected Transactions; and (ii) the Proposed Caps.

As at the Latest Practicable Date, each of Brilliance China and Wuliangye is interested in 400,000,000 and 400,000,000 Shares, representing approximately 31.17% and 31.17% of the issued share capital of the Company, respectively. Huachen is interested in approximately 42.48% of the issued share capital of Brilliance China and a controlling shareholder of Brilliance China. Brilliance China and its associates will abstain from voting on the ordinary resolutions to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions between the Group and Brilliance China Group and Huachen Group, respectively and the Proposed Caps in respect of the Continuing Connected Transactions between the Group and Brilliance China Group and Huachen Group, respectively. Wuliangye and its associates will abstain from voting on the ordinary resolution to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions between the Group and Wuliangye Group and the Proposed Caps in respect of the Continuing Connected Transactions between the Group and Wuliangye Group.

LETTER FROM THE BOARD

VIII. EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting to be held at Victoria Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 11 December 2015 at 9:00 a.m. for the purpose of considering, and if thought fit, the passing of the ordinary resolutions set out on pages 57 to 61 of this circular. Any shareholder with a material interest in the transactions will not vote.

There is enclosed a form of proxy for use at the Extraordinary General Meeting. Whether or not the Shareholders intend to be present at the Extraordinary General Meeting, they are requested to complete the form of proxy and return it to the office of the branch registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding of the Extraordinary General Meeting or any adjourned meeting (as the case may be). Completion and delivery of the form of proxy will not prevent the Shareholders from attending and voting at the Extraordinary General Meeting or adjourned meeting (as the case may be) if they so wish.

In accordance with the requirements of the Listing Rules, the resolutions to be put forward at the Extraordinary General Meeting will be voted on by the Independent Shareholders by way of poll.

IX. RECOMMENDATIONS

The text of a letter to the Independent Shareholders from the Independent Board Committee containing its recommendation in relation to each of the Continuing Connected Transactions and the Proposed Caps is set out on page 25 of this circular.

Having considered the advice from the Independent Financial Adviser in relation to each of the Continuing Connected Transactions and the Proposed Caps, which is set out on pages 26 to 49 of this circular, the Independent Board Committee is of the opinion that the terms of each of the Continuing Connected Transactions and the Proposed Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting.

LETTER FROM THE BOARD

Having considered the reasons set out herein, the Directors (excluding directors who had abstained from voting on certain resolutions but including the independent non-executive Directors) are of the opinion that the Continuing Connected Transactions and the Proposed Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting.

X. ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Xinchen China Power Holdings Limited
Wu Xiao An
(also known as Ng Siu On)
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

16 November 2015

To the Independent Shareholders

Dear Sir/Madam,

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

We have been appointed as the Independent Board Committee to advise you in connection with the Continuing Connected Transactions and the Proposed Caps, details of which are set out in the Letter from the Board in the circular to the Shareholders dated 16 November 2015 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having taken into account the terms of the Continuing Connected Transactions and the Proposed Caps, the principal factors and reasons considered by the Independent Financial Adviser and its advice in relation thereto as set out on pages 26 to 49 of the Circular, we are of the opinion that the Continuing Connected Transactions and the Proposed Caps are in the interests of the Company and the Shareholders as a whole and that the Continuing Connected Transactions and the Proposed Caps are fair and reasonable so far as the Shareholders are concerned. We therefore recommend that you vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Continuing Connected Transactions and the Proposed Caps.

Yours faithfully,

Chi Guohua

Independent non-executive Director

Wang Jun

Independent non-executive Director

Huang Haibo

Independent non-executive Director

Wang Songlin

Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter received from the Independent Financial Adviser setting out its opinion to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Proposed Caps for inclusion in this circular.



801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

16 November 2015

To the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Huachen Sale Agreement, the Brilliance China Sale Agreement, the Wuliangye Purchase Agreement, the transactions contemplated thereunder (the “**Continuing Connected Transactions**”) and the relevant Proposed Caps, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 16 November 2015 (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 13 October 2015, the Company entered into the Huachen Sale Agreement, the Brilliance China Sale Agreement, the Wuliangye Purchase Agreement with Huachen, Brilliance China and certain subsidiaries of Wuliangye respectively as to the continued conduct of the Continuing Connected Transactions for the three financial years commencing from 1 January 2016 to 31 December 2018.

As at the Latest Practicable Date, each of Brilliance China and Wuliangye is interested in 400,000,000 and 400,000,000 Shares, representing approximately 31.17% and 31.17% of the issued share capital of the Company, respectively. Accordingly, each of Brilliance China and Wuliangye is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Huachen is interested in approximately 42.48% of the issued share capital of Brilliance China and a controlling shareholder of Brilliance China. It is deemed as a connected person of the Company by the Stock Exchange under Rule 14A.07(6) of the Listing Rules. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Proposed Caps for the Continuing Connected Transactions are, on an annual basis, over 5%, the Continuing Connected Transactions and the relevant Proposed Caps are subject to reporting, announcement, annual review and Independent Shareholders’ approval requirements as set out in Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company will hold the Extraordinary General Meeting for the purpose of considering and approving the Continuing Connected Transactions and the relevant Proposed Caps by the Independent Shareholders, at which the proposed resolutions 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. Brilliance China and its associates will abstain from voting on the ordinary resolutions to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions between the Group and Brilliance China Group and Huachen Group, respectively and the Proposed Caps in respect of the Continuing Connected Transactions between the Group and Brilliance China Group and Huachen Group, respectively. Wuliangye and its associates will abstain from voting on the ordinary resolutions to be proposed at the Extraordinary General Meeting in respect of the Continuing Connected Transactions between the Group and Wuliangye Group and the Proposed Caps in respect of the Continuing Connected Transactions between the Group and Wuliangye Group.

We are not connected with the directors, chief executive and substantial shareholders of the Company, Huachen, Brilliance China, Wuliangye 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. During the last two years, we were engaged as an independent financial adviser to the Company in respect of a discloseable and connected transaction (details can be referred to the circular of the Company dated 31 December 2013), continuing connected transactions (details can be referred to the circular of the Company dated 28 May 2014), continuing connected transactions (details can be referred to the announcement of the Company dated 15 August 2014) and connected and continuing connected transactions (details can be referred to the circular of the Company dated 18 February 2015 (the “**Previous Engagements**”). Under the Previous Engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and/or the Shareholders in respect of the relevant transactions. 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, Huachen, Brilliance China, Wuliangye or any of their respective subsidiaries or associates. Despite the Previous Engagements, we consider our independence in regard of our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the relevant Proposed Caps (the “**Current Engagement**”) unaffected due to the facts that (i) under the Previous Engagements we were entitled to receive normal professional fees that are comparable to market rates and in line with general market practice; (ii) the nature and counterparty of the Previous Engagements and the Current Engagement varied; (iii) the Current Engagement is handled by a different transaction team; and (iv) we have performed our duties with impartiality in respect of each of our engagements with the Company and additionally each of the engagements was handled independently as an individual task and thus we consider ourselves eligible to act as the independent financial adviser to the Company under the requirements of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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, Huachen, Brilliance China, Wuliangye and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

THE CONTINUING CONNECTED TRANSACTIONS AND THE RELEVANT PROPOSED CAPS

Principal factors and reasons considered

In arriving at our opinion regarding the Continuing Connected Transactions and the relevant Proposed Caps, we have considered the following principal factors and reasons:

1. *Background of and reasons for the Continuing Connected Transactions and the relevant Proposed Caps*

The Group is principally engaged in the development, manufacture and sale of automotive engines for passenger vehicles and light duty commercial vehicles and manufacture of engine parts and components of the passenger vehicles in the PRC.

As stated in the Prospectus, the Group supplied different types of gasoline engines to Huachen, Shenyang Brilliance Power, Mianyang Huarui and Mianyang Huaxiang. The Group also supplied engine components to Huachen, Mianyang Huarui and Mianyang Huaxiang. In addition, the Group supplied gasoline engines and various types of engine components to Shenyang Jinbei and/or Xing Yuan Dong. Besides, the Group purchased various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Sichuan Pushi and/or Xinhua Combustion Engine. The Group

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

has entered into the relevant framework agreements with Huachen, Brilliance China and Wuliangye in 2013 and obtained a waiver from the Stock Exchange for these continuing connected transactions upon the listing of the Company. As these framework agreements will expire by 31 December 2015 and the parties wish to continue the relevant transactions (i.e. the Continuing Connected Transactions) upon expiry of the relevant framework agreements, the parties entered into the Huachen Sale Agreement, the Brilliance China Sale Agreement and the Wuliangye Purchase Agreement.

As disclosed in the Letter from the Board, in the ordinary course of business of the Group, the Group purchases various types of engine components from, amongst others, Wuliangye Group for production of the Group's engines. The Group sells engines produced by it and also engine components to, amongst others, Brilliance China Group and Huachen Group. In particular, the Group sells its engines to Huachen Group for use in manufacturing Zhonghua autos, a wholly-owned business operated by Huachen Group. Such engines are developed and produced according to the specification required by Huachen. Meanwhile, the Group sells its engines to Brilliance China Group for use in manufacturing Jinbei minibuses, a non wholly-owned business operated by Brilliance China Group. Such engines are developed and produced according to the specification required by Brilliance China and the Group sells N20 engines to Brilliance China Group for use in manufacturing new premium MPV, which broadens the customer base and increases the demand for this engine.

On the other hand, engine components supplied by Pushi Group and Xinhua Combustion Engine are produced based on specifications provided by the Group and used for the production of engines of the Group or for sale to customers of the Group for repair and maintenance purposes.

As disclosed in the Prospectus, the history of the Group can be traced back to 1998 when Mianyang Xinchun, the current operating subsidiary of the Group, was jointly established in the PRC by Pushi Group and the Brilliance China Group. Mianyang Xinchun has been principally engaged in the design, manufacture, sales and after-sales services of automotive engines and power machinery since its incorporation. The customers of Mianyang Xinchun include local and foreign-invested automotive manufacturers and automotive components companies in the PRC. Historically, Mianyang Xinchun has been manufacturing and selling automotive engines and engine components to Huachen Group and Brilliance China Group whilst procuring engine components from Wuliangye Group. Huachen Group and Brilliance China Group have always been the one of the top five customers of the Group and the aggregate sale accounted for a substantial portion of the total turnover of the Group in the past. Meanwhile, Wuliangye Group has always been one of the top five suppliers of the Group in the past but its portion of supply only accounted for a small portion of the total supply of parts and components of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Company, due to the fact that Mianyang Xincheng (and even the Group) has been part of Brilliance China Group and Huachen Group for many years before listing of the Company and the policies of the PRC government to promote domestic production of core components of automotive components in general, Mianyang Xincheng has been an important supplier of engines and engine components of Brilliance China Group and Huachen Group for their vehicles manufactured (namely minibuses, sedans, SUVs and MPVs). Also, in view that the specification of engines and engine components is usually tailor-made for specific brands of vehicles of particular automotive manufacturers and the same model of engine or engine component of an automotive manufacturer would usually be used in various models of vehicles, it is more efficient to produce engines and engine components to suit certain automotive manufacturers' requirements and specification.

Meanwhile, due to the fact that safety is of the utmost importance of a vehicle, an automotive manufacturer would either produce the required engines and engine components on its own or source those engines and engine components from a limited number of selected suppliers. To be enlisted as a selected supplier for automotive components (including engine and engine component), its products will be tested repeatedly and in various ways by the automotive manufacturer to ensure it can last and its quality meets the requirement and specification. Therefore, it is common for an automotive manufacturer to rely on limited suppliers for its productions and frequent or sudden replacement of supplier of engine and engine component is rare and difficult in the industry.

Due to reasons above, it is common for an engine and engine component supplier to build a long term business relationship with particular automotive manufacturer which is mutual reliant in nature.

Based on the above, we consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the Group to enter into the Huachen Sale Agreement, the Brilliance China Sale Agreement and the Wuliangye Purchase Agreement in order to continue the ongoing transactions with (i) Huachen Group and Brilliance China Group to secure stable customers for the Group and (ii) Wuliangye Group to secure a stable supply of engine components for the onward manufacturing of engines of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Industry overview

According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the unit sales of automobiles in the PRC from 2011 to 2014 and the first eight months of 2015 are summarised below:

| | Year ended 31 December | | | Eight months ended 31 August | | |
|---------------------------|------------------------|----------|----------|---------------------------------|----------|----------|
| | 2011 | 2012 | 2013 | 2014 | 2014 | 2015 |
| Total sales volume ('000) | 18,505.1 | 19,306.4 | 21,984.1 | 23,491.9 | 15,017.3 | 15,017.2 |
| – passenger vehicles | 14,472.4 | 15,495.2 | 17,928.9 | 19,700.6 | 12,459.5 | 12,782.1 |
| Growth rate | 5.19% | 7.07% | 15.71% | 9.89% | 10.70% | 2.59% |
| – commercial vehicles | 4,032.7 | 3,811.2 | 4,055.2 | 3,791.3 | 2,557.8 | 2,235.1 |
| Growth rate | (6.31)% | (5.49)% | 6.40% | (6.53)% | (5.00)% | (12.62)% |
| Overall growth rate | 2.45% | 4.33% | 13.87% | 6.86% | 7.67% | 0.00% |

Based on the above table, it is noted that the sales of automobiles in the PRC has been on an increasing trend over the last few years and the year-to-year growth rate was in the range of 2.5% to 13.9%. However, during the eight months ended 31 August 2015, the growth in sales of automotive slowed down. In particular, the sales volume of passenger vehicles exhibits an increasing trend during the period from 2011 to 2015.

Meanwhile, according to the statistics of China Association of Automobile Manufacturers, the sales volume achieved by Huachen Group (which included the Brilliance China Group and affiliated entities of Huachen Group) ranked seventh in the PRC for the two years ended 31 December 2014 and the eight months ended 31 August 2015 respectively and the respective sales volume were approximately 777,400 vehicles, 801,700 vehicles and 338,300 vehicles.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, according to the statistics of China Association of Automobile Manufacturers, the export and import of engines and engine components from 2011 to 2014 and the first eight months of 2015 are summarised below:

| | Year ended 31 December | | | Eight months ended 31 August | | |
|---------------------------------------------|------------------------|----------|--------|---------------------------------|--------------|----------|
| | 2011 | 2012 | 2013 | 2014 | 2014 2015 | |
| <i>Engines ('000 set)</i> | | | | | | |
| - Export | 4,293 | 3,155 | 3,313 | 3,662 | 2,469 | 2,309 |
| Growth rate | 29.05% | (26.51)% | 5.10% | 10.56% | 11.19% | (6.46)% |
| - Import | 1,117 | 738 | 818 | 811 | 525 | 422 |
| Growth rate | 7.50% | (33.93)% | 10.82% | (0.94)% | 2.10% | (19.63)% |
| <i>Engine components (USD 'million)</i> | | | | | | |
| Export | 4,867 | 5,358 | 6,146 | 7,016 | 4,582 | 4,859 |
| Growth rate | 32.76% | 10.08% | 14.71% | 14.14% | 14.32% | 6.03% |
| Import | 4,439 | 4,163 | 4,379 | 4,919 | 3,205 | 2,884 |
| Growth rate | 25.01% | (6.22)% | 5.18% | 12.33% | 13.34% | (10.01)% |

Regarding the export and import of engines of the PRC, it is noted from the above table that the export of engines during the period from 2011 to 2015 has been on an increasing trend in general, except that it has experienced a significant drop in 2012 and a mild drop for the eight months ended 31 August 2015 whereas the import of engines during the period from 2011 to 2015 has been on a decreasing trend in general. Meanwhile, the export of engines components during the period from 2011 to 2015 has been on an increasing trend in general whereas the import of engines components during the period from 2011 to 2015 were relatively stable and the transaction amounts fluctuating roughly within the band of USD4 billion to USD5 billion per year.

Combining the results of the sale volume of automobiles and import and export of engines and engine components and the fact that domestic assembly engines are relatively cheaper than imported ones, it is obvious that the automotive manufacturers have a tendency to use domestic assembly engines in most of the vehicles over using imported ones with a view to increase competitiveness. We consider that this would be mainly attributable to the policies of the PRC implemented during the last few years to encourage the use of domestically manufactured components and parts in automobiles manufactured in the PRC. Another attribute to this phenomenon would be the advancement in specification, quality and efficiency of the locally manufactured components and parts (such as engines and engine components) in the recent years as more collaboration between overseas well-established

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

automotive manufacturers and local automotive manufacturers took place during the last two decade where local automotive manufacturers have attained improvements in various aspects such as research and development, quality control, management skills and cost control.

Taking into account the above, particularly the fact that (i) the sales of automobiles in the PRC has been on an increasing trend over the last few years; (ii) Huachen Group has been one of the top ten automotive manufacturers in the PRC; and (iii) the automotive manufacturers have a tendency to use domestic assembly engines in most of the vehicles over using imported ones with a view to increase competitiveness and reduce overall costs, we consider that the demands for vehicles produced by the Huachen Group (including Brilliance China Group and affiliated entities of Huachen Group) to remain significant which would in turn result in a significant demand for engines and engine components from the Group. In order to produce such amount of engines and engine components to cope with the demand from Huachen Group and other automotive manufacturers, the Group would be required to purchase engine components from certain subsidiaries of Wuliangye and other suppliers. Accordingly, from the industry-wide perspective, we are of the view that an increasing trend in the Proposed Caps is in line with the overall development and expansion trend of the automotive market in the PRC in general.

3. *The relevant Proposed Caps*

Based on information provided by the Company, we summarise in the following table (i) the Existing Caps of the Continuing Connected Transactions for the period from the Listing Date to 31 December 2013 and each of the two financial years ending 31 December 2015; (ii) the historical transacted amounts for the period from the Listing Date to 31 December 2013, the financial year ended 31 December 2014 and the six months ended 30 June 2015; and (iii) the relevant Proposed Caps for the three financial years ending 31 December 2018:

| | For the | For the | For the | For the financial year ending | | |
|-----------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------|----------------------------------------|-------------------------------|------------------------------|------------------------------|
| | period from 13 March 2013 to 31 December 2013 | financial year ended 31 December 2014 | six months ended 30 June 2015 | 2016 | 2017 | 2018 |
| Continuing Connected Transactions | Historical figures (RMB'000) | Historical figures (RMB'000) | Historical figures (RMB'000) | Proposed Cap (RMB'000) | Proposed Cap (RMB'000) | Proposed Cap (RMB'000) |
| The Huachen Sale Agreement | | | | | | |
| Sale of engines and engine components to Huachen Group | 763,982 (774,100) (Note) | 682,984 (868,600) (Note) | 293,403 (1,044,300) (Note) | 1,374,440 | 1,442,263 | 2,118,086 |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

| | For the | For the | For the | For the financial year ending | | |
|-----------------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------|----------------------------------------|-------------------------------|------------------------------|------------------------------|
| | period from 13 March 2013 to 31 December 2013 | financial year ended 31 December 2014 | six months ended 30 June 2015 | 2016 | 2017 | 2018 |
| Continuing Connected Transactions | Historical figures (RMB'000) | Historical figures (RMB'000) | Historical figures (RMB'000) | Proposed Cap (RMB'000) | Proposed Cap (RMB'000) | Proposed Cap (RMB'000) |
| The Brilliance China Sale Agreement | | | | | | |
| Sale of engines and engine components to Brilliance China Group | 372,645 (501,000) <i>(Note)</i> | 337,699 (574,900) <i>(Note)</i> | 242,781 (667,600) <i>(Note)</i> | 769,997 | 808,991 | 848,781 |
| The Wuliangye Purchase Agreement | | | | | | |
| Purchase of engine components from Sichuan Pushi | 184,572 (192,900) | 183,172 (231,800) | 42,350 (268,700) | 28,550 | 30,000 | 31,500 |
| Purchase of engine components from Xinhua Combustion Engine | <i>(Note)</i> | <i>(Note)</i> | <i>(Note)</i> | 180,850 | 186,870 | 193,180 |
| Sub-total | | | | 209,400 | 216,870 | 224,680 |

Note: the figures in bracket set out in the above table are the Existing Caps which had been approved and waived by the Stock Exchange

The Proposed Caps of the Continuing Connected Transactions are determined primarily based on the following:

- (i) the estimated volume of engines and engine components required by the Group's connected customers with reference to their internal sales targets and expected market demand for their products;
- (ii) the estimated volume of engines components required by the Group based on the estimated demand for the Group's engines from both connected and independent customers; and
- (iii) the expected unit sale and purchase prices for the engines and engine components.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to assess the fairness and reasonableness of the estimated quantity and estimated price of the relevant Proposed Caps, we have performed the following analysis:

- *The Proposed Caps for the Huachen Sale Agreement*

Pursuant to the Huachen Sale Agreement, the Huachen Sale Agreement shall be for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Huachen Sale Agreement is terminated prior to its expiry date, the agreement shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules. In addition, the Group agreed to sell engines and engine components to Huachen Group on terms which are no less favourable than the terms which can be obtained by the relevant members of the Group from independent third parties for sale of such products of comparable quality and quantity.

The price for each sale of engine and engine components to Huachen Group is determined by reference to the prevailing market price. Where the price is determined by reference to the prevailing market price, market price means the price at which the same type of products is sold to independent third party customers on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent customers for products of comparable quality, quantity and specifications. Upon review of the invoices of comparable past transactions of the Group of certain engines or engine components sold to independent third party customers, on a sample basis, we note that the pricing for the past transactions with Huachen Group during the two years ended 31 December 2014 and six months ended 30 June 2015 were comparable to and not less favourable than the pricing the Group offered to independent third party customers for same products.

In respect of the Proposed Caps of RMB1,374,440,000, RMB1,442,263,000 and RMB2,118,086,000 to be sought for the sale of engines and engine components to Huachen Group for each of the three financial years ending 31 December 2018, respectively, we have obtained from the Company a list of estimated sales of engines and engine components summing up roughly to the Proposed Caps. We have reviewed the breakdown sales for engines and engine components of the Group up to 30 June 2015. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual engine or engine component by the estimated quantity of the corresponding engine or engine component. We note that the selling price per unit of engine or engine component for each of the three financial years ending 31 December 2018 is expected to remain largely stable at those actually recorded in the first half of 2015. On the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

other hand, the estimated quantity of the corresponding components was arrived at after taking into account (i) the estimated number of vehicles to be produced by Huachen Group under its existing product lines and new models to be launched by Huachen Group, based on discussions between the Group and the Huachen Group and the Huachen Group's production plans furnished to the Group. The existing products of Huachen Group include various models of sedans, SUVs, pickup trucks and the new models of products of Huachen Group to be launched include upgraded version of certain existing sedans, SUVs and MPVs and new premium pickup trucks. Huachen Group currently plans to produce an aggregate of approximately 143,000 vehicles, approximately 177,000 vehicles and approximately 207,500 vehicles in 2016 to 2018 respectively but the actual production volume may be adjusted subject to the then market condition and other factors; (ii) the anticipated growth in sales of the Huachen Group's products in domestic and overseas markets as a result of launching new models of upgraded version of certain existing sedans, SUVs and MPVs and new premium pickup trucks to market over the next three years gradually and the export of the CKD (completely knocked down) of certain models to Iran start to grow and the planned expansion to cover new markets such as Thailand and Brazil in near future; (iii) the historical trend of sales to Huachen Group during the two years ended 31 December 2014 and the six months ended 30 June 2015; and (iv) the expected increase in Huachen Group's demand for the Group's new higher-efficiency engine models to be launched during the year ending 31 December 2018 in light of the revised "Fuel Consumption Limits for Passenger Cars" promulgated by the Ministry of Industry and Information Technology of the PRC ("MIIT") in December 2014 which shall become effective from 2016. In view that most developed countries are adopting stricter fuel consumption limit requirements in coming years, the aforesaid Fuel Consumption Limits for Passenger Cars in the PRC aims to promote the technological advancement in automobile industry which would result in enhancement in the efficiency of fuel consumption (i.e. consuming same amount of fuel for going a longer distance of passenger cars in general) by year 2020. There are a few directions to achieve this targeted result such as weight reduction by using lighter alloy; improve fuel conversion by reduction of heat loss and adoption of air-compressor in engine; reduce energy loss in transmission by adoption shorter gear ratios; adopting regenerative braking system and others. Against this background, it is expected that automotive manufacturers are required to comply with more stringent fuel consumption requirements which would imply that they would need to equip lighter and more efficient components in their vehicles produced. Taking into account the above and the fact that the Group is one of the leading automotive engine manufacturers in the PRC, it is expected that there will be a significant demand for the Group's new higher-efficiency engine models which could meet the tighter fuel consumption requirements in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

| Year | 2010(A) | 2011(A) | 2012(A) | 2013(A) | 2014(A) | 2015(A) | 2016(F) | 2017(F) | 2018(F) |
|----------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------|--------------|-----------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | | | | | | <i>(Note 4)</i> | | | |
| Sale of existing engines and engine components <i>(in RMB million):</i> | | | | | | | | | |
| – Sale of BM15 series engines | – | – | – | 99.8 | 384.6 | 209.0 | 1,052.3 | 1,104.9 | 1,160.1 |
| – Sale of other existing engines and engine components | 270.4 <i>(Note 2)</i> | 661.6 <i>(Note 2)</i> | 654.4 <i>(Note 3)</i> | 664.2 | 298.4 | 84.4 | 197.2 | 206.2 | 215.6 |
| Sale of new models of engines since 2018 <i>(in RMB million)</i> | – | – | – | – | – | – | – | – | 549.8 |
| Total | 270.4 | 661.6 | 654.4 | 764.0 | 683.0 | 293.4 | 1,249.5 <i>(Note 5)</i> | 1,311.1 <i>(Note 5)</i> | 1,925.5 <i>(Note 5)</i> |

Notes:

1. (A) denotes for the actual transaction amount for the year and (F) denotes for the forecasted transaction amount of the year.
2. Source: the Prospectus
3. Source: the annual report of the Company for the year ended 31 December 2012
4. The historical amount for the six months ended 30 June 2015
5. Before applying the 10% buffer

As set out in the above table, it is noted that the revenue of sale of engines and engine components by the Group to Huachen Group during the years 2011 to 2014 were in the range of around RMB650 million to around RMB760 million. Although we have no certainty on the exact transaction amount of the sale of engines and engine components by the Group to Huachen Group for the year ending 31 December 2015, based on the actual transacted amount for the six months ended 30 June 2015 and the orders on hand, it is expected by the Company that the aggregate transaction amount in respect of the sale of engines and engine components by the Group to Huachen Group for the full year 2015 would not deviate a lot from the above range.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the estimated quantity of engines or engine components (except the BM15 series) to be sold to Huachen Group during each of the three years ending 31 December 2018 is generally in line with the historical trend of sales to Huachen Group during each of the two years ended 31 December 2014 and the six months ended 30 June 2015. Upon comparison, we note that the estimated sales of the Group's BM15 series engines constituted a majority of the Proposed Caps during each of the three years ending 31 December 2018. As advised by the Company, the expected surge in demand for the Group's BM15 series engines is primarily attributable to the launch of a brand new SUV of Huachen Group in May 2015 which was well-received by the Chinese market. Such SUV model has achieved a sales quantity of approximately 15,000 units during the first three months after launch and with reference to the historical launch sales pattern of comparable vehicles of Huachen Group and taking into account that BM15 series engines are planned to replace some of the existing models of engines of the Company, the Company therefore expects the sales volume of the BM15 series engines will considerably increase and contribute much to the revenue of the Group during the three years ending 31 December 2018. Moreover, based on the industry analysis in the section headed "Industry overview" above, sales volume of passenger vehicles exhibits an increasing trend during the period from 2011 to 2015 which indicates that the products of Huachen Group, which are sedans, may also inherit a similar characteristic. In addition, in late September 2015, the executive meeting of the State Council decided to cut the tax rate on purchases of vehicles with an engine capacity of 1.6 litres and lower from 1 October 2015 to 31 December 2016 and implemented policies to support new energy and low-emission vehicle development. Besides, in view that the products of Huachen Group are mainly equipped with engines of capacity between 1.0 litres to 1.6 litres, purchasers of these vehicles will enjoy the tax cut benefit which is expected to increase the demand. Also, in view that the car ownership level in the mid-western regions of the PRC remains relatively lower and the products of Huachen Group are also suitable for those terrains, it is expected the market of mid-western regions of the PRC will remain a main source of income for the auto market in the PRC. As such, the Company is of the view that there are reasonable grounds in setting the Proposed Caps at a higher level than the Existing Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, we also note that the estimated quantity of the engines to be sold to Huachen Group during the year ending 31 December 2018 is much higher than those in 2016 and 2017. As advised by the Group, such increase is due to the implementation of the revised “Fuel Consumption Limits for Passenger Cars” which the Group is of the view that a number of older inefficient engine models will therefore have to be phased out and the Group’s new higher-efficiency engine models could fill the gaps left by such models. Particularly, as advised by the Company, the relevant production line for the new higher-efficiency engine models is in the planning stage and it is expected that the Group would generate revenue from Huachen Group of around RMB550 million for these new engine models. We also noted that the Board has included a buffer of 10% on top of the estimated sales amount to Huachen Group for each of the three years ending 31 December 2018 in arriving at the Proposed Caps.

On the above basis, we consider that the Board has taken a prudent approach in determining the Proposed Caps for the Huachen Sale Agreement and we are of the view that the bases on which the Proposed Caps were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

- *The Proposed Caps for the Brilliance China Sale Agreement*

Pursuant to the Brilliance China Sale Agreement, the Brilliance China Sale Agreement shall be for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Brilliance China Sale Agreement is terminated prior to its expiry date, the agreement shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules. In addition, the Group agreed to sell engines and engine components to Brilliance China Group on terms which are no less favourable than the terms which can be obtained by the relevant members of the Group from independent third parties for sale of such products of comparable quality and quantity.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The price for each sale of engine and engine components to Brilliance China Group is determined by reference to the prevailing market price. Where the price is determined by reference to the prevailing market price, market price means the price at which the same type of products is sold to independent third party customers on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent customers for products of comparable quality, quantity and specifications.

In the event that the prevailing market price is not appropriate or available, the Group and the Brilliance China Group would adopt “cost-plus” approach for determining the pricing. Cost plus is determined based on the raw material costs and production costs to be incurred for the production of engines and engine components plus anticipated reasonable profits. The margin to be charged by the Group is expected to be comparable with the level of profits derived from the sale of similar engines and engine components to independent third parties.

The cost plus method applies to cases where the relevant product of the Group is tailor made for use by Brilliance China Group for further processing for manufacturing automobiles and thus no prevailing market price of the same product is available. Save for the sale of N20 engines to Shenyang Jinbei where the pricing will be based on cost plus approach, the pricings of all other transactions under this category of the Continuing Connected Transactions (including sales of engines with capacities ranging from 1.6 litres to 3 litres and engine components including crankshafts, connecting rods, computer boards and oxygen sensors) will be determined on prevailing market price approach. When determining the prices of its products under the cost plus approach, the Group initially obtains the quotations of the materials and components required for manufacturing from its suppliers which will then passed to the Purchasing Department for approval. After the quotations having been approved, the information needs to be passed to the Financial Control Division and the chief financial officer, which will consider and discuss internally in light of other cost components obtained including costs of labour, processing, transportation and logistics and will then determine and approve the margin which has to be acceptable to the Group and Brilliance China Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Company, the Group will only sell the N20 engines and other related engine parts and components to Brilliance China Group (which includes BMW Brilliance Automotive Ltd. and Shenyang Jinbei), prices of comparable products sold to independent third parties are unavailable and the margin to be charged by the Group is expected to be comparable with the level of profits derived from the sale of gasoline engines to independent third parties. Upon review of the invoices of comparable past transactions of the Group, on a sample basis, we note that the pricing for the past transactions with Brilliance China Group during the two years ended 31 December 2014 and six months ended 30 June 2015 were comparable to and not less favourable than the pricing the Group offered to independent third party customers for same products. Also, upon comparison, we note that the gross profit per unit of N20 engine is comparable to the gross profit per unit of gasoline engine sold by the Group to independent third parties. Accordingly, we consider the adoption of cost plus method is appropriate.

In respect of the Proposed Caps of RMB769,997,000, RMB808,991,000 and RMB848,781,000 to be sought for the sale of engines and engine components to Brilliance China Group for each of the three financial years ending 31 December 2018, respectively, we have obtained from the Company a list of estimated sales of engines and engine components summing up roughly to the Proposed Caps. We have reviewed the breakdown sales for engines and engine components of the Group up to 30 June 2015. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated price per unit of the individual engine or engine component by the estimated quantity of the corresponding engine or engine component. We note that the selling price per unit of engine or engine component for each of the three financial years ending 31 December 2018 is expected to remain largely stable at those actually recorded in the first half of 2015. On the other hand, the estimated quantity of the corresponding components was arrived at after taking into account (i) the estimated number of vehicles to be produced by Brilliance China Group under its existing product lines and new models to be launched by Brilliance China Group, based on discussions between the Group and Brilliance China Group and the Brilliance China Group's production plans furnished to the Group. The existing products of Brilliance China Group include various models of minibuses and MPVs and the new models of products of Brilliance China Group to be launched include upgraded version or diesel version of certain existing minibuses and MPVs; (ii) the anticipated growth in sales of the Brilliance China Group's products in domestic and overseas markets as a result of launching upgraded version or diesel version of certain existing minibuses and MPVs over the next few years and the proportion and absolute amount of export (to Thailand, Malaysia, Egypt and others) have been increasing as noted from the annual report of Brilliance China for the year ended 31 December 2014; and (iii) the historical trend of sales to Brilliance China

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group during the two years ended 31 December 2014 and the six months ended 30 June 2015. Furthermore, against the background that automotive manufacturers are required to comply with more stringent fuel consumption requirements in general and the Group's engines supplied to Brilliance China would comply with the stringent fuel consumption requirements and emission standards, it is expected that there will be a significant demand for the Brilliance China Group's vehicles which would indirectly drive the demand for the engines and engine components of the Group in future.

Upon our review of the historical transactions between the Group and Brilliance China Group in respect of the sale of engines and engine components for the two years ended 31 December 2014 and six months ended 30 June 2015, it is noted that the transactions involved two subsidiaries of Brilliance China, namely Shenyang Jinbei and Xing Yuan Dong. The following table illustrates the respective revenue contribution of Shenyang Jinbei and Xing Yuan Dong for the two years ended 31 December 2014 and six months ended 30 June 2015, and the respective forecasted revenue contribution of Shenyang Jinbei and Xing Yuan Dong for the three years ending 31 December 2018:

| Year | 2013(A) | 2014(A) | 2015(A) | 2016(F) | 2017(F) | 2018(F) |
|----------------------------------------------------------------------------------|--------------|--------------|-----------------|-----------------|-----------------|-----------------|
| | | | <i>(Note 2)</i> | | | |
| Sale of engines and engine components to Shenyang Jinbei <i>(in RMB million)</i> | 10.4 | 9.9 | 83.7 | 325.0 | 341.7 | 358.2 |
| Sale of engines and engine components to Xing Yuan Dong <i>(in RMB million)</i> | <u>362.3</u> | <u>327.8</u> | <u>159.1</u> | <u>375.0</u> | <u>393.8</u> | <u>413.5</u> |
| Total | 372.6 | 337.7 | 242.8 | 700.0 | 735.4 | 771.6 |
| | | | | <i>(Note 3)</i> | <i>(Note 3)</i> | <i>(Note 3)</i> |

Notes:

1. (A) denotes for the actual transaction amount for the year and (F) denotes for the forecasted transaction amount of the year
2. The historical amount for the six months ended 30 June 2015
3. Before applying the 10% buffer

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

It is noted that the revenue generated from Xing Yuan Dong for the two years ended 31 December 2014 accounted for more than 90% of the aggregate turnover of the revenue generated from Brilliance China Group. However, the revenue generated from Xing Yuan Dong for the six months ended 30 June 2015 only accounted for around 65% of the aggregate turnover of the revenue generated from Brilliance China Group due to the fact that the revenue generated from Shenyang Jinbei for the six months ended 30 June 2015 has increased significantly. As advised by the Company, the production of N20 engines started in mid-2014 and those engines were mostly supplied to BMW Brilliance Automotive Ltd., a sino-foreign equity joint venture company incorporated in the PRC which is owned as to 50% by Shenyang Jinbei Automotive Industry Holdings Co., Ltd.* (瀋陽金杯汽車工業控股有限公司) (a wholly-owned subsidiary of Brilliance China) and 50% by BMW Holdings B.V. (“BBA”) at that time. As production volume gradually ramed up, certain N20 engines were supplied to Brilliance China Group for its production of J11 premium MPVs under the consent of BBA. As advised by the Company, it is expected that the demand (as well as the relevant production) for this premium MPVs will gradually increase as this premium MPV was launched only few months ago. As a result, the proportion of the revenue generated from Shenyang Jinbei is expected to account for around half of the Proposed Caps for the three years ending 31 December 2018 whilst the sales to Xing Yuan Dong would remain relatively stable with a mild growth of 5%. Moreover, as the N20 engines are able to comply with tighter emission standards to be implemented in near future and N20 engines use the technology from BMW Holdings B.V., it is expected that J11 premium MPVs will be competitive amongst similar grade of MPVs and the demand would increase. Besides, based on the actual sales volume of J11 premium MPVs for the first nine months ended 30 September 2015 and the order on hand for the coming few months, we consider that the Company did not adopt an aggressive approach to determine the estimated sale volume for the next three years under the Proposed Caps. Also, given that the automobile industry accounts for a significant portion of the economy of the PRC (i.e. around 10% of the GDP of the PRC for the years during 2010 to 2013 in terms of sales value of the automobile manufacturing industry based on statistics of the National Bureau of Statistics of the PRC) and the fact that the PRC government has been implementing favourable policies towards the automobile industry from time to time since the entering into the World Trade Organisation and the expected economic growth in the PRC may drop below the target growth rate, the Company is of the view that the PRC government may implement policies in near future to revive the automobile market in the PRC as one of the means to promote economic growth and restore growth momentum. Furthermore, we noted that the Board has included a buffer of 10% on top of the estimated sales amount to Brilliance China Group for each of the three years ending 31 December 2018 in arriving at the Proposed Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For instance, in 2004, National Development and Reform Commission of the PRC (the “**NDRC**”) promulgated the Policy on Development of Automotive Industry (汽車產業發展政策) where such policy contains provisions relating to, amongst other things, the PRC automobile industry policies and aims, technology policies, structural adjustments, market access administration, trademarks, product development, spare parts sales and other relevant sub-industries, distribution networks, investment administration, import administration, and automobile consumption. In 2009, the NDRC and the Ministry of Finance of the PRC (“**MOF**”) jointly promulgated the Notice on the Launch of the “Project to Benefit People with Energy-Saving Products”(關於開展“節能產品惠民工程”的通知), and the NDRC, the MIIT and the MOF jointly promulgated the Implementation Provisions for the Promotion of Fuel-Efficient Automobiles (Passenger Vehicles of 1.6 Liters and Below) under the “Project to Benefit People with Energy-Saving Products”(“節能產品惠民工程” 節能汽車(1.6升及以下乘用車)推廣實施細則), the PRC Government provides a subsidy of RMB3,000 per automobile purchased if the automobile is fuel-efficient, which requires that the automobile has a 1.6-liter or smaller engine. Also, in 2009, the MOF and the Ministry of Commerce of the PRC jointly announced the implementation of a new “old swap new” program where during the period from 1 June 2009 to 31 May 2010, owner trading in a specified old vehicle which failed to meet certain emission standard would be subsidised by up to RMB6,000 and this program has extended to 31 December 2014 where the subsidy for trading in certain types of old vehicles have been increased in order to increase the effectiveness to displacement of some old vehicles. In 2011, under the Twelve Five-Year Plan, the PRC designated “new-energy” automobiles and their components as one of the seven “strategic and emerging industries” in which it aims to become a world leader by 2030. The PRC government would invest RMB1.5 trillion in these seven industries over the next five years to enable them to grow at an annual rate of 35 percent over the period. In 2015, the executive meeting of the State Council decided to cut the tax rate on purchases of vehicles with an engine capacity of 1.6 litres and lower from 1 October 2015 to 31 December 2016 and implemented policies to support new energy and low-emission vehicle development. Based on the aforesaid, we concur with the view of the Company that the PRC government may implement policies in near future to revive the automobile market in the PRC as one of the means to promote economic growth and restore growth momentum and consider such view is reasonable as we reckon the fact that the PRC government has been implementing favourable policies towards the automobile industry from time to time where it is believed that general public would be expecting for certain new favourable policy in the PRC to be implemented based on historical events.

On the above basis, we are of the view that the bases on which the Proposed Caps for the Brilliance China Sale Agreement were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- *The Proposed Caps for the Wuliangye Purchase Agreement*

The Group entered into purchase agreements with certain subsidiaries of Wuliangye for purchase of engine components. Pursuant to the Sichuan Pushi Purchase Agreement and the Xinhua Combustion Engine Purchase Agreement (the “**Wuliangye Purchase Agreement**”), the Wuliangye Purchase Agreement shall be for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Unless the Wuliangye Purchase Agreement is terminated prior to its expiry date, the agreements shall be renewable for an additional term of three years subject to fulfillment of all necessary statutory and regulatory requirements including but not limited to any applicable requirement under the Listing Rules. In addition, Mianyang Xincheng agreed to purchase various gasoline and diesel engine components such as crankshafts, exhaust manifolds, cylinder chambers and cylinder heads from Sichuan Pushi and Xinhua Combustion Engine on terms which are no less favourable than the terms which can be obtained by the relevant members of the Group from independent third parties for purchase of such products of comparable quality and quantity.

The price for each purchase of engine components from Wuliangye Group is determined by reference to the prevailing market price. Where the price is determined by reference to the prevailing market price, market price means the price at which the same type of products is obtained from independent third party suppliers on normal commercial terms in the ordinary course of business. For the purpose of obtaining market prices, the Group will make reference to the price quotations obtained from other independent suppliers for products of comparable quality, quantity and specifications. We have obtained price quotations on a sample basis from independent suppliers of the Group for comparable products during the two years ended 31 December 2014 and the six months ended 30 June 2015 and we note that the quoted prices are comparable to the price provided by Wuliangye Group.

In respect of the aggregate Proposed Caps of RMB209,400,000, RMB216,870,000 and RMB224,680,000 to be sought for the purchase of engine components from Sichuan Pushi and Xinhua Combustion Engine for each of the three financial years ending 31 December 2018, respectively, we have obtained from the Company a list of estimated purchases of engine components summing up roughly to the Proposed Caps. We have reviewed the breakdown purchases for engine components of the Group up to 30 June 2015. We understand from the Company that such list of estimate was prepared on the basis of multiplying the estimated purchase price per unit of the individual engine component by the estimated quantity of the corresponding engine component. We note that the purchase price per unit of engine component for each of the three financial years ending 31 December 2018 is expected to remain the same comparing to those actually recorded in the first half of 2015. On

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the other hand, the estimated quantity of the corresponding components was arrived at after taking into account (i) the estimated number of engines to be produced by the Group under its existing product lines and new models to be launched, based on confirmed orders and discussions between the Group and the customers regarding their plans. The existing products of the Group include various gasoline and diesel engines for passenger vehicles such as sedan, SUVs and MPVs and light duty commercial vehicles such as mid to low end minibuses, pickup trucks and the new models of products of the Group to be launched include several models of engines that are Euro 6 (or Beijing 6) emissions standards compliant and are designed to be used in mid to high end sedans and SUVs; (ii) the anticipated growth in demand of the Group's engines and engine components from both connected and independent customers in view that tighter emissions standards will be implemented in due course in the PRC and the new products of the Group can comply with the expected required standards and the Company is working with automotive manufacturer(s) to explore overseas markets, which may have a less stringent requirement on emission, for selling some of the existing models of engines; and (iii) the historical trend of purchases from Wuliangye Group by the Group during the two years ended 31 December 2014 and the six months ended 30 June 2015. The following table illustrates the historical and forecasted purchase amount of engine components from Sichuan Pushi and Xinhua Combustion Engine respectively by the Group during the periods indicated:

| Year | 2013(A) | 2014(A) | 2015(A) <i>(Note 2)</i> | 2016(F) | 2017(F) | 2018(F) |
|-------------------------------------------------------------------------------------------|--------------|--------------|----------------------------|---------------------------------|---------------------------------|---------------------------------|
| Purchase of engine components from Sichuan Pushi <i>(in RMB million)</i> | 165.7 | 179.0 | 38.8 | 164.4 | 169.9 | 175.6 |
| Purchase of engine components from Xinhua Combustion Engine <i>(in RMB million)</i> | 18.8 | 4.2 | 3.5 | 26.0 | 27.3 | 28.6 |
| Total | 184.5 | 183.2 | 42.3 | 190.4 <i>(Note 3)</i> | 197.2 <i>(Note 3)</i> | 204.2 <i>(Note 3)</i> |

Notes:

1. (A) denotes for the actual transaction amount for the year and (F) denotes for the forecasted transaction amount of the year
2. The historical amount for the six months ended 30 June 2015
3. Before applying the 10% buffer

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note from the above table that the historical purchase amount of engine components from Wuliangye Group for the two years ended 31 December 2014 and the six months ending 30 June 2015 was in the range of around RMB170 million to around RMB185 million. Upon comparison, we note that the estimated purchase amount from Wuliangye Group for each of the three years ending 31 December 2018 represents an increase of approximately 5% comparing to the previous year. As advised by the Company, the product mix to be procured from Wuliangye Group is expected to remain largely the same as the current procurements and the slight increase in the expected purchase amount each year is mainly attributable to the increase in quantity of engine components to be purchased based on the Group's production schedule and the anticipated growth in demand of the Group's engines as above-mentioned. In addition, based on historical record and sales plan, it is expected that around 40% in aggregate of the engines assembled from the components procured from Wuliangye Group would be sold to Huachen Group and Brilliance China Group and the remaining portion would be sold to other automotive manufacturers and other parties. We were advised by the Company that the Company has taking into consideration (i) the difference in the actual sales volume of Huachen and Brilliance China for the six months ended 30 June 2015 and the planned sales volume of Huachen and Brilliance China for year 2015 determined at around end of 2014 which represented a moderate shortfall; (ii) the actual sales volume of engines for the three months ended 30 September 2015; (iii) the orders on hand; (iv) indicative size of orders from other automotive manufacturers for year 2016; and (v) the PRC government may implement policies in near future to revive the automobile market in the PRC as one of the means to promote economic growth and restore growth momentum, when determine the Proposed Cap for the Wuliangye Purchase Agreement for 2016. Furthermore, we noted that the Board has included a buffer of 10% on top of the estimated purchase amount from Wuliangye Group for each of the three years ending 31 December 2018 in arriving at the Proposed Caps.

On the above basis, we consider that the bases on which the relevant Proposed Caps for the Wuliangye Purchase Agreement were determined are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

4. *The conditions*

As the relevant Proposed Caps exceed HK\$10 million and the relevant applicable ratios under Rule 14.07 of the Listing Rules exceed 5%, the relevant Proposed Caps are subject to reporting, announcement, annual review and the requirement of seeking approval from the Independent Shareholders under the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company will therefore seek the approval by the Independent Shareholders of the Continuing Connected Transactions and the relevant Proposed Caps subject to the following conditions:

1. The Continuing Connected Transactions will be:
 - (i) entered into by the Group in the ordinary and usual course of its business;
 - (ii) conducted on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and
 - (iii) entered into in accordance with the terms of the relevant framework agreements governing the Continuing Connected Transactions that are fair and reasonable and in the interests of the Shareholders of the Company as a whole;
2. The transacted amount of the transactions under the Huachen Sale Agreement, the Brilliance China Sale Agreement and the Wuliangye Purchase Agreement shall not exceed the relevant Proposed Caps (as the case may be); and
3. The Company will comply with all other relevant requirements under the Listing Rules.

Taking into account the conditions attached to the Continuing Connected Transactions, in particular (i) the restriction by way of setting the relevant Proposed Caps; and (ii) the compliance with all other relevant requirements under the Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the Continuing Connected Transactions), we consider that the Company has taken appropriate and adequate measures to govern the Group in carrying out the Continuing Connected Transactions, thereby safeguarding the interests of the Shareholders thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors, in particular, the following:

- (i) it is common for an engine and engine component supplier to build a long term business relationship with particular automotive manufacturer which is mutual reliant in nature;
- (ii) the enter into the Huachen Sale Agreement, the Brilliance China Sale Agreement and the Wuliangye Purchase Agreement would enable the Group to secure (i) Huachen Group and Brilliance China Group as stable customers for the Group and (ii) Wuliangye Group as stable supplier of engine components, for the onward manufacturing of engines of the Group;
- (iii) the mechanism and measures taken/to be taken by the Group in ensuring the Continuing Connected Transactions are on normal commercial terms; and
- (iv) the restriction by way of setting of the relevant Proposed Caps,

we are of the opinion that the Continuing Connected Transactions and the relevant Proposed Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting for approving the Continuing Connected Transactions and the relevant Proposed Caps.

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Louis Chan

Managing Director

Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 10 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

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, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS IN EQUITY OR DEBT SECURITIES

As at the Latest Practicable Date, the interests and short positions of each Director, chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV 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 he was taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO to be entered into the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, are set out below:

The Company

| Name of Director | Nature of interests | Number and class of Shares | Approximate percentage of shareholding ⁽³⁾ |
|-------------------------------------------------------------|--------------------------------------------------|----------------------------|-------------------------------------------------------|
| Mr. Wu Xiao An (also known as Mr. Ng Siu On) ⁽¹⁾ | Beneficial owner | 8,320,041 ordinary | 0.65% |
| | Trustee and interest in a controlled corporation | 35,485,672 ordinary | 2.77% |
| Mr. Wang Yunxian ⁽²⁾ | Beneficial owner | 6,471,143 ordinary | 0.50% |
| | Trustee and interest in a controlled corporation | 35,485,672 ordinary | 2.77% |

Notes:

- (1) Mr. Wu Xiao An is a trustee of the Discretionary Trust (which holds 35,485,672 Shares for the beneficiaries) under the share incentive scheme (the “**Incentive Scheme**”) established by Lead In Management Limited (“**Lead In**”) and holds 50% interests in Lead In. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 2.77% of the issued share capital of the Company.

- (2) Mr. Wang Yunxian is a trustee of the Discretionary Trust (which holds 35,485,672 Shares for the beneficiaries) under the Incentive Scheme and holds 50% interests in Lead In. Accordingly, Mr. Wang is deemed or taken to be interested in approximately 2.77% of the issued share capital of the Company.

- (3) These percentages are calculated on the basis of 1,283,211,794 Shares in issue as at the Latest Practicable Date.

Save as disclosed, as at the Latest Practicable Date, none of the Directors, chief executives and their respective associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV 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 he was taken or deemed to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO to be entered into the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to the Directors and chief executives of the Company, the following persons, other than a Director or chief executive of the Company had an interest or a short position in the Shares and underlying shares of the Company 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 ten per cent. 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:

| Name of Shareholder | Capacity | Number of Shares | Approximate percentage of shareholding ⁽⁶⁾ |
|---------------------------------------------------------------------------------------|--------------------------------------|------------------|-------------------------------------------------------|
| Brilliance Investment Holdings Limited | Beneficial owner | 400,000,000 | 31.17% |
| Brilliance China Automotive Holdings Limited ⁽¹⁾ | Interest in a controlled corporation | 400,000,000 | 31.17% |
| Huachen Automotive Group Holdings Company Limited ⁽²⁾ | Interest in a controlled corporation | 400,000,000 | 31.17% |
| Xinhua Investment Holdings Limited | Beneficial owner | 400,000,000 | 31.17% |
| Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited ⁽³⁾ | Interest in a controlled corporation | 400,000,000 | 31.17% |
| Sichuan Yibin Pushi Group Co., Ltd. ⁽⁴⁾ | Interest in a controlled corporation | 400,000,000 | 31.17% |
| Sichuan Province Yibin Wuliangye Group Co., Ltd. ⁽⁵⁾ | Interest in a controlled corporation | 400,000,000 | 31.17% |
| Templeton Asset Management Ltd. | Investment Manager | 77,913,000 | 6.07% |

Notes:

- (1) Brilliance Investment Holdings Limited (“**Brilliance Investment**”) is wholly-owned by Brilliance China Automotive Holdings Limited (“**Brilliance China**”) and Brilliance China is deemed or taken to be interested in approximately 31.17% of the issued share capital of the Company in which Brilliance Investment is interested.

- (2) Brilliance China is owned as to approximately 42.48% by Huachen Automotive Group Holdings Company Limited (“**Huachen**”) and Huachen is deemed or taken to be interested in approximately 31.17% of the issued share capital of the Company in which Brilliance Investment is interested.
- (3) Xinhua Investment Holdings Limited (“**Xinhua Investment**”) is a direct wholly-owned subsidiary of Mianyang Xinhua Internal Combustion Engine Joint-stock Company Limited (“**Xinhua Combustion Engine**”) and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.17% of the issued share capital of the Company in which Xinhua Investment is interested.
- (4) Xinhua Combustion Engine is a direct non wholly-owned subsidiary of Sichuan Yibin Pushi Group Co., Ltd. (“**Pushi Group**”) and Pushi Group is deemed or taken to be interested in approximately 31.17% of the issued share capital of the Company in which Xinhua Investment is interested.
- (5) Pushi Group is a direct wholly-owned subsidiary of Sichuan Province Yibin Wuliangye Group Co., Ltd. (“**Wuliangye**”) and Wuliangye is deemed or taken to be interested in approximately 31.17% of the issued share capital of the Company in which Xinhua Investment is interested.
- (6) These percentages are calculated on the basis of 1,283,211,794 Shares in issue as at the Latest Practicable Date.

Save as disclosed herein, as at the Latest Practicable Date, there was no other person so far as is known to the Directors and chief executives of the Company, other than a Director or chief executive of the Company had an interest or a short position in the Shares and underlying shares of the Company 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 ten per cent. 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.

4. DIRECTORS’ INTEREST IN ASSETS AND/OR ARRANGEMENT

As at the Latest Practicable Date:

- (a) save as disclosed in this circular, there was no contract or arrangement entered into by any member of the Group subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.
- (b) save as disclosed in this circular and save for the acquisition of a crankshaft production line, the supporting equipment and facilities, the related spare parts and related contracts by Mianyang Xinchun from BMW Brilliance Automotive Ltd., an associate of Brilliance China, in which Mr. Wu Xiao An and Mr. Qi Yumin had interests, pursuant to an assets transfer agreement dated 21 January 2015 as disclosed in an announcement of the Company dated the same date, none of the Directors had

any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, the Company or any of its subsidiaries since 31 December 2014, the date to which the latest published audited consolidated financial statements of the Group were made up.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed contract of service with any member of the Group which is not expiring or terminable within one year without payment of compensation (other than statutory compensation).

6. EXPERT'S CONSENT AND QUALIFICATION

The following is the qualification of the professional adviser who has given opinion or advice which is contained in this circular:

| Name | Qualification |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 |

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and all reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, the Independent Financial Adviser was not beneficially interested in the share capital of any member of the Group nor did it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. COMPETING INTERESTS

None of the Directors and his associates is interested directly or indirectly in a business, apart from his interest in the Company, which competes or is likely to compete with the business of the Group.

8. 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 Part XV 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 | director |
| Mr. Wang Yunxian | Xinhua Investment | director |
| Mr. Qi Yumin | Brilliance China | chief executive officer, president and executive director |
| | Huachen | chairman, president and executive director |
| Mr. Tang Qiao | Wuliangye | secretary of the party committee and chairman |
| | Pushi Group | chairman |

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors have confirmed that there has not been any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest audited consolidated financial statements of the Group were made up.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at Suites 1602-05, Chater House, 8 Connaught Road Central, Hong Kong from the Latest Practicable Date up to and including the date which is 14 days from the Latest Practicable Date and at the Extraordinary General Meeting:

- (a) the letter from the Independent Financial Adviser, the text of which is set out on pages 26 to 49 of this circular;
- (b) the written consent from the Independent Financial Adviser referred to in paragraph 6 of this appendix;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 25 of this circular;
- (d) the framework agreements setting out the terms of the Continuing Connected Transactions; and
- (e) the assets transfer agreement between Mianyang Xinchun and BMW Brilliance Automotive Ltd. dated 21 January 2015.

11. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

NOTICE OF EXTRAORDINARY GENERAL MEETING

POWER XINCHEN

新 晨 動 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 an extraordinary general meeting of Xincheng China Power Holdings Limited (the “**Company**”) will be held at Victoria Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Friday, 11 December 2015 at 9:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the entering into of the framework agreement dated 13 October 2015 (the “**Huachen Sale Agreement**”) (copy of which is marked “A” and produced to the meeting and signed by the Chairman for identification purpose) in respect of the continuing connected transactions to be entered into between the Company on the one part and Huachen Automotive Group Holdings Company Limited* (華晨汽車集團控股有限公司) on the other part for the three financial years ending 31 December 2018 as set out in the paragraph headed “Renewal of the Continuing Connected Transactions” in the Letter from the Board contained in the circular of the Company dated 16 November 2015 (the “**Circular**”) be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Huachen Sale Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Huachen Sale Agreement; and
- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Huachen Sale Agreement pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2018 as set out in the paragraph headed “The Proposed Caps” in the Letter from the Board contained in the Circular be and are hereby approved.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. **“THAT**

- (a) the entering into of the framework agreement dated 13 October 2015 (the **“Brilliance China Sale Agreement”**) (copy of which is marked “B” and produced to the meeting and signed by the Chairman for identification purpose) in respect of the continuing connected transactions to be entered into between the Company on the one part and Brilliance China Automotive Holdings Limited on the other part for the three financial years ending 31 December 2018 as set out in the paragraph headed “Renewal of the Continuing Connected Transactions” in the Letter from the Board contained in the circular of the Company dated 16 November 2015 (the **“Circular”**) be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Brilliance China Sale Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Brilliance China Sale Agreement; and
- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Brilliance China Sale Agreement pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2018 as set out in the paragraph headed “The Proposed Caps” in the Letter from the Board contained in the Circular be and are hereby approved.”

3. **“THAT**

- (a) the entering into of the framework agreement dated 13 October 2015 (the **“Sichuan Pushi Purchase Agreement”**) (copy of which is marked “C” and produced to the meeting and signed by the Chairman for identification purpose) in respect of the continuing connected transactions to be entered into between Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) (a wholly-owned subsidiary of the Company) (**“Mianyang Xincheng”**) on the one part and Sichuan Yibin Pushi Automotive Components Co., Ltd.* (四川省宜賓普什汽車零部件有限公司) on the other part for the three financial years ending 31 December 2018 as set out in the paragraph headed “Renewal of the Continuing Connected Transactions” in the Letter from the Board contained in the circular of the Company dated 16 November 2015 (the **“Circular”**)

NOTICE OF EXTRAORDINARY GENERAL MEETING

be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Sichuan Pushi Purchase Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Sichuan Pushi Purchase Agreement;

- (b) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Sichuan Pushi Purchase Agreement pursuant to paragraph (a) of this Resolution for each of the three financial years ending 31 December 2018 as set out in the paragraph headed “The Proposed Caps” in the Letter from the Board contained in the Circular be and are hereby approved;
- (c) the entering into of the framework agreement dated 13 October 2015 (the “**Xinhua Combustion Engine Purchase Agreement**”) (copy of which is marked “D” and produced to the meeting and signed by the Chairman for identification purpose) in respect of the continuing connected transactions to be entered into between Mianyang Xincheng on the one part and Mianyang Xinhua Internal Combustion Engine Joint Stock Company Limited* (綿陽新華內燃機股份有限公司) on the other part for the three financial years ending 31 December 2018 as set out in the paragraph headed “Renewal of the Continuing Connected Transactions” in the Letter from the Board contained in the Circular be and is hereby approved, confirmed and ratified and the entering into of the relevant continuing connected transactions pursuant to the Xinhua Combustion Engine Purchase Agreement be and are hereby approved; and that any director of the Company be and is hereby authorised to take such actions and to enter into such documents as are necessary to give effect to the abovementioned continuing connected transactions contemplated under the Xinhua Combustion Engine Purchase Agreement; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (d) the proposed maximum annual monetary value of the continuing connected transactions contemplated under the Xinhua Combustion Engine Purchase Agreement pursuant to paragraph (c) of this Resolution for each of the three financial years ending 31 December 2018 as set out in the paragraph headed “The Proposed Caps” in the Letter from the Board contained in the Circular be and are hereby approved.”

By order of the Board
Xinchen China Power Holdings Limited
Ngai Ka Yan
Company Secretary

Hong Kong, 16 November 2015

Registered office:

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Head office and principal place of business:

Suites 1602-05
Chater House
8 Connaught Road Central
Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxies to attend and to vote on a poll in his stead. On a poll, votes may be given either personally (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's branch 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 appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if shareholders so wish.
5. The ordinary resolutions set out in this notice of extraordinary general meeting will be put to shareholders to vote taken by way of a poll.

* *for identification purposes only*