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

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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)

**MANDATE FOR POSSIBLE
DISCLOSEABLE AND CONNECTED TRANSACTION**

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

 **金融有限公司**
OCTAL Capital Limited

A letter from the Board is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee is set out on page 12 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 13 to 25 of this circular.

A notice convening the Extraordinary General Meeting to be held at Gloucester Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Thursday, 25 August 2016 at 9:00 a.m. is set out on pages 38 to 40 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 Xincheng 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.

27 July 2016

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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;
“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 person”	has the meaning ascribed thereto in the Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened for the purpose of approving the Possible Acquisition;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“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 the Possible Acquisition;
“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 the Possible Acquisition;

DEFINITIONS

“Independent Shareholder(s)”	Shareholder(s) other than Wuliangye and its associates;
“Latest Practicable Date”	22 July 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange;
“Maximum Consideration”	approximately RMB264.26 million (equivalent to approximately HK\$306.68 million), being the maximum amount Mianyang Xincheng is willing to bid at the Tender for the Possible Acquisition;
“Mianyang Xincheng”	Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company;
“Possible Acquisition”	the possible acquisition of the Properties by Mianyang Xincheng if it is successful at the Tender;
“PRC”	The People’s Republic of China and only for the purpose of this circular, do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Properties”	comprising 3 parcels of land located at No. 69, Xingchang Avenue, Gaoxin District, Mianyang City, Sichuan Province, the PRC and 6 buildings and various ancillary structures erected thereon;
“Proposed Mandate”	an authority to be granted to the Directors in advance by the Independent Shareholders at the Extraordinary General Meeting to engage in the Possible Acquisition;
“Pushi Group”	Sichuan Yibin Pushi Group Co., Ltd.* (四川省宜賓普什集團有限公司), one of the controlling shareholders of the Company;

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC;
“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 Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Tender”	the public tender for the sale of the Properties to be held to at the Southwest United Equity Exchange;
“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 holding company of the Pushi Group;
“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 direct non wholly-owned subsidiary of Pushi Group; and
“%”	per cent.

* for identification purposes only

For the purposes of illustration only, any amount denominated in RMB in this circular was translated into HK\$ at the rate of RMB1 = HK\$1.16051. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate or at all.

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

27 July 2016

To all Shareholders

Dear Sir/Madam,

**MANDATE FOR POSSIBLE
DISCLOSEABLE AND CONNECTED TRANSACTION**

I. INTRODUCTION

On 6 July 2016, the Board announced that it would like to seek Independent Shareholders' authorisation for the Group, through Mianyang Xincheng, to bid at the Tender for the Properties currently owned by Xinhua Combustion Engine. The Maximum Consideration for the Possible Acquisition which Mianyang Xincheng is willing to bid at the Tender is approximately RMB264.26 million (equivalent to approximately HK\$306.68 million).

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 Possible Acquisition. The letter from the Independent Board Committee setting out its advice and recommendations to the Independent Shareholders on the Possible Acquisition is set out on page 12 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 Possible Acquisition. The letter from the Independent Financial Adviser setting out its advice and recommendations to the Independent Board Committee and the Independent Shareholders on the Possible Acquisition is set out on pages 13 to 25 of this circular.

The purpose of this circular is to provide Shareholders with among other things, (1) further details of the Possible Acquisition; (2) the valuation report of the Properties; (3) a letter from the Independent Board Committee to the Independent Shareholders, setting out its recommendations in connection with the Possible Acquisition; (4) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Possible Acquisition; and (5) the notice of the Extraordinary General Meeting.

II. POSSIBLE DISCLOSEABLE AND CONNECTED TRANSACTION

The Board would like to seek Independent Shareholders' authorisation for the Group, through Mianyang Xincheng, to bid at the Tender for the Properties currently owned by Xinhua Combustion Engine.

(1) Proposed Consideration

The initial asking price for the bid is approximately RMB264.26 million (equivalent to approximately HK\$306.68 million). The Maximum Consideration for the Possible Acquisition which Mianyang Xincheng is willing to bid at the Tender is approximately RMB264.26 million (equivalent to approximately HK\$306.68 million). The consideration will be settled by instalments. It is expected that the Maximum Consideration will be satisfied by internal resources of the Group generated from its principal business activities.

LETTER FROM THE BOARD

The Directors consider that the Maximum Consideration is fair and reasonable having taken into account the initial asking price, the location and potential value of the Properties and the appraised value of the Properties of RMB250.14 million (equivalent to approximately HK\$290.29 million) as at 30 June 2016 as assessed by an independent property valuer appointed by the Company by using market approach for the land portion and cost approach for the building portion. Valuation report of the Properties is included in the appendix II to this circular. The original acquisition costs of the Properties amount to approximately RMB248.94 million (equivalent to approximately HK\$288.90 million). Xinhua Combustion Engine acquired the land portion of the Properties in October 2010.

The final bid price for the Properties to be submitted will depend on, among other things, the Group's view on the property market (in particular, properties suitable for vehicle engines manufacturing) and its prospects on the date of the Tender as well as the Group's estimates of the bid prices that could have been made by potential competitors at the Tender (with reference to the background and financial credibility of the potential competitors), but will in any event not exceed the Maximum Consideration of approximately RMB264.26 million (equivalent to approximately HK\$306.68 million).

(2) Tender process at Southwest United Equity Exchange

A summary of the tender process at Southwest United Equity Exchange is as follows:

- (a) Southwest United Equity Exchange released a notice specifying the terms of the sale of the Properties. The Properties are available for bidding in a 20 working day period since 30 June 2016. If Southwest United Equity Exchange has not received any valid offer by the first due date, second round of tender will commence and the Properties will be available for bidding for another 10 working days. If no valid offer has been received by Southwest United Equity Exchange in the second round, the tender process will then repeat in 10 working day cycles until the Properties are sold.
- (b) After obtaining the Independent Shareholders' approval in respect of the Possible Acquisition at the Extraordinary General Meeting, Mianyang Xincheng will then submit the bidding application to Southwest United Equity Exchange to bid for the Properties. Mianyang Xincheng will be required to pay a deposit of RMB20 million (equivalent to approximately HK\$23.21 million) (the "Deposit") to Southwest United Equity Exchange for the Possible Acquisition.

LETTER FROM THE BOARD

- (c) After the expiry of the tender cycle in which Mianyang Xincheng has submitted the bidding application, Southwest United Equity Exchange will notify Mianyang Xincheng as to whether it has succeeded in the bidding.
- (d) Within 3 working days from the confirmation letter from Southwest United Equity Exchange, Mianyang Xincheng will enter into acquisition agreement with Xinhua Combustion Engine (the “**Acquisition Agreement**”).

The consideration for the Possible Acquisition will be satisfied by cash or cash equivalents in the following manner:

- (a) 30% of the consideration shall be satisfied within 5 working days from the date of the Acquisition Agreement;
- (b) 50% of the consideration shall be satisfied within 30 working days from the date of the Acquisition Agreement; and
- (c) The remaining balance of the consideration shall be satisfied within 1 year from the date of the Acquisition Agreement.

(3) Conditions for participating in the Tender

Mianyang Xincheng should satisfy the following criteria for participating in the Tender:

- (a) completion of the application for participating in the Tender by producing corporate documents of the Mianyang Xincheng such as business registration certificate, authorised representative certificate and relevant board resolution or shareholders’ resolution during the prescribed period; and
- (b) full payment of the Deposit.

III. INFORMATION ON THE PROPERTIES

The Properties consist of 3 parcels of land with a total site area of approximately 103,922.87 square meters, 6 buildings and various ancillary structures erected thereon. The buildings mainly include industrial workshops, administration building, dormitory buildings, canteen and ancillary buildings with a total gross floor area of approximately 71,693.64 square meters.

LETTER FROM THE BOARD

IV. REASONS FOR THE POSSIBLE ACQUISITION

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 Group was licensed by BMW AG to manufacture prince engines under its own brand for its existing and potential customers. The Group decided to build up production facilities for prince engines in Mianyang after considering, among others, location of existing production facilities of the Group and its management team, location of the Group's existing and potential customers and support from local government of Mianyang.

The Properties are located adjacent to the Group's existing production site in Mianyang. Currently, the Group occupied certain portion of the Properties for production and administrative purposes with the permission of Xinhua Combustion Engine at nil consideration. The Directors consider that the Possible Acquisition represents an excellent expansion opportunity for the Group as it would allow the Company to leverage on the existing manufacturing capability of the Properties so as to fulfill its expansion goal to build up assembly and processing production line(s) for prince engine more efficiently. The Possible Acquisition will also allow the Group to centralize its existing and new production facilities in one location to achieve synergy and improve operational efficiency. The Group may revamp the ancillary structures within the Properties in accordance with its plan to industrialise the manufacturing of prince engines if necessary.

The Directors (excluding directors who had abstained from voting on the resolutions) consider that the terms of the Possible Acquisition are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

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.

Xinhua Combustion Engine

Xinhua Combustion Engine is a joint-stock company established in the PRC and a non wholly-owned subsidiary of the Pushi Group 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

Xinhua Combustion Engine is a non wholly-owned subsidiary of Pushi Group, which is a wholly-owned subsidiary of Wuliangye. As at the Latest Practicable Date, Wuliangye is interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company. Accordingly, Xinhua Combustion Engine is a connected person of the Company under Rule 14A.07(4) of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Possible Acquisition exceed 5%, but all of the percentage ratios are less than 25%, the Possible Acquisition constitutes a discloseable and connected transaction of the Company subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

Mr. Wang Yunxian, an executive Director, is a director of Xinhua Investment Holdings Limited (which is a wholly-owned subsidiary of Xinhua Combustion Engine). Mr. Tang Qiao, a non-executive Director, is also director and president of Wuliangye. Accordingly, Mr. Wang Yunxian and Mr. Tang Qiao had abstained from voting on the Board resolutions in respect of the Possible Acquisition.

The Board confirms that except for Mr. Wang Yunxian and Mr. Tang Qiao, none of the Directors has any material interest in the Possible Acquisition. Accordingly, 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 Possible Acquisition.

VII. GENERAL

As the Properties currently owned by Xinhua Combustion Engine are state-owned properties in the PRC, any transfer of which should be conducted through public tender at an equity exchange in compliance with the requirements stipulated in the Guidelines on Supervision and Management of the Transactions of State-owned Assets of Enterprises* (企業國有資產交易監督管理辦法) approved by State-owned Assets Supervision and Administration Commission of the State Council unless otherwise permitted under law. Accordingly, Mianyang Xincheng could acquire the Properties from Xinhua Combustion Engine only through the public tender.

If Mianyang Xincheng's bidding is successful, it will thereupon become unconditionally obliged to purchase the Properties and will not be able to seek the approval of the Independent Shareholders after the bid that is required under Chapter 14A of the Listing Rules. Accordingly, the Directors are seeking the Independent Shareholders' advance approval for the grant of the Proposed Mandate.

LETTER FROM THE BOARD

An announcement containing, among other things, (i) the result of Mianyang Xincheng's bid submitted at the Tender; and (ii) should its bid be successful, the final price to be paid by Mianyang Xincheng and the date of the Acquisition Agreement will be made by the Company as soon as practicable.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Possible Acquisition.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Possible Acquisition.

As at the Latest Practicable Date, Wuliangye is interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company. Wuliangye and its associates will abstain from voting on the ordinary resolution to be proposed at the Extraordinary General Meeting in respect of the Possible Acquisition.

VIII. EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting to be held at Gloucester Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Thursday, 25 August 2016 at 9:00 a.m. for the purpose of considering, and if thought fit, the passing of the ordinary resolution set out on pages 38 to 40 of this circular. Any shareholder with a material interest in the transaction 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.

LETTER FROM THE BOARD

In accordance with the requirements of the Listing Rules, the resolution 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 the Possible Acquisition is set out on page 12 of this circular.

Having considered the advice from the Independent Financial Adviser in relation to the Possible Acquisition, which is set out on pages 13 to 25 of this circular, the Independent Board Committee is of the opinion that the Possible Acquisition is 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 resolution to be proposed at the Extraordinary General Meeting.

Having considered the reasons set out herein, the Directors (excluding directors who had abstained from voting on the resolutions but including the independent non-executive Directors) are of the opinion that the Possible Acquisition is 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 resolution 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

* *for identification purposes only*

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)

27 July 2016

To the Independent Shareholders

Dear Sir or Madam,

**MANDATE FOR POSSIBLE
DISCLOSEABLE AND CONNECTED TRANSACTION**

We have been appointed as the Independent Board Committee to advise you in connection with the Possible Acquisition, details of which are set out in the Letter from the Board in the circular to Shareholders dated 27 July 2016 (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 Possible Acquisition, the principal factors and reasons considered by the Independent Financial Adviser and its advice in relation thereto as set out on pages 13 to 25 of the Circular, we are of the opinion that the Possible Acquisition is on normal commercial terms or better and in the ordinary and normal course of business of the Group and in the interests of the Company and the Shareholders as a whole and that the Possible Acquisition is fair and reasonable so far as the Shareholders are concerned. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Possible Acquisition.

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 Possible Acquisition for inclusion in this circular.



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

27 July 2016

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Possible Acquisition, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 27 July 2016 (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, the Board would like to seek Independent Shareholders’ authorisation for the Group, through Mianyang Xinchun, to bid at the Tender for the Properties currently owned by Xinhua Combustion Engine. The Maximum Consideration for the Possible Acquisition which Mianyang Xinchun is willing to bid at the Tender is approximately RMB264.26 million (equivalent to approximately HK\$306.68 million).

As at the Latest Practicable Date, Xinhua Combustion Engine is a non-wholly owned subsidiary of Pushi Group, which is a wholly-owned subsidiary of Wuliangye. As at the Latest Practicable Date, Wuliangye is interested in 400,000,000 Shares, representing approximately 31.20% of the issued share capital of the Company. Accordingly, Xinhua Combustion Engine is a connected person of the Company under Rule 14A.07(4) of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Possible Acquisition exceed 5%, but all of the percentage ratios are less than 25%, the Possible Acquisition constitutes a discloseable and connected transaction of the Company subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Company will hold the Extraordinary General Meeting for the purpose of considering and approving the bidding at the Tender, the Possible Acquisition and the transactions contemplated thereunder by the Independent Shareholders. Wuliangye and its associates will abstain from voting at the Extraordinary General Meeting in relation to the Possible Acquisition, at which the proposed resolution will be passed by way of ordinary resolution and voting will be conducted by way of poll in accordance with the requirements of the Listing Rules.

An independent board committee comprising Mr. Chi Guohua, Mr. Wang Jun, Mr. Huang Haibo and Mr. Wang Songlin, being the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of whether the terms of the Possible Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The advice of the Independent Board Committee as regards the Possible Acquisition is contained in its letter included in the Circular.

We, Octal Capital Limited, have been appointed as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders on the Possible Acquisition. We are not connected with the Directors, chief executive and substantial shareholders of the Company, Mianyang Xinchun, Xinhua Combustion Engine, Pushi Group, 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 advisor to the Company in respect of certain connected transactions (details can be referred to the announcement of the Company dated 15 August 2014 and the circulars of the Company dated 18 February 2015 and 16 November 2015 respectively). Under such engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and the Shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us by the Company in connection with these appointments, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, Mianyang Xinchun, Xinhua Combustion Engine, Pushi Group, Wuliangye or any of their respective subsidiaries or associates.

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, Mianyang Xincheng, Xinhua Combustion Engine, Pushi Group, Wuliangye and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

DISCLOSEABLE AND CONNECTED TRANSACTION: THE POSSIBLE ACQUISITION

Principle factors and reasons considered

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

1. Background of and reasons for the Possible Acquisition

Information of the Group and the counterparty

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. On the other hand, Xinhua Combustion Engine is a joint-stock company established in the PRC and a non-wholly owned subsidiary of the Pushi Group 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

services and logistic services. Set out below is the extract from the annual report for the year ended 31 December 2014 and 31 December 2015 (the “**2015 Annual Report**”) of the Company.

	For the year ended 31 December	
	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Revenue (by product segment)		
– Gasoline engines	1,950,290	2,568,436
– Diesel engines	423,311	262,772
– Engine components and service income	278,845	438,123
Total Revenue	2,652,446	3,269,331
Profit before tax	317,016	270,759
Profit after tax	271,546	224,665
Net assets	2,460,293	2,679,421
Cash and cash equivalents	353,947	288,212

During the years ended 31 December 2014 and 2015, gasoline engines and diesel engines have been the principal source of revenue of the Group and contributed approximately 89.5% and 86.6% of the total revenue, respectively. During the year ended 31 December 2015, the Group’s engine business segment recorded a further increase of approximately 19.3% in revenue to approximately RMB2,831.2 million, the increase was mainly due to increase in sale of products to BMW Brilliance Automotive Ltd which offset the impact brought by the decrease in demand for the Group’s traditional engines and decrease in selling price of engine components. While the Group’s engine components and service income segment also recorded a significant increase in revenue of approximately 57.1% to approximately RMB438.1 million as compared to the corresponding period in 2014, which was mainly attributable to the introduction of crankshaft business from BMW Brilliance Automotive Ltd in 2015 and the increase in the sales volume of connection rod due to rising demand for vehicles equipped with N20 engines. However, the Group recorded a decrease in profit attributable to owners of the Company of approximately 17.3% from approximately RMB271.6 million for the year ended 31 December 2014 to approximately RMB224.7 million for the year ended 31 December 2015. Such decrease was mainly due to an unrealized foreign exchange loss of approximately RMB32.7 million in 2015 in light of the depreciation in Renminbi against US dollar for a sizeable amount of US dollar denominated bank loan of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded cash and cash equivalents of approximately RMB288.2 million as at 31 December 2015 and the Maximum Consideration would be satisfied by internal resources of the Group generated from its principal business activities and settled by installments. In view of the level of cash of the Group, we are of the view that the Group has sufficient financial resources to satisfy the Maximum Consideration.

Reasons for entering into the Possible Acquisition

The Properties comprises 3 parcels of land, 6 buildings and various ancillary structures erected thereon with a total site area of approximately 103,922.87 square meters. The buildings mainly include industrial workshops, administration building, dormitory buildings, canteen and ancillary buildings with a total gross floor area of approximately 71,693.64 square meters. Currently, certain portion of the Properties has been occupied by the Group for production and administrative purposes with the permission of Xinhua Combustion Engine at nil consideration.

As mentioned in the Letter from the Board, since the Properties currently owned by Xinhua Combustion Engine are state-owned properties in the PRC, any transfer of which should be conducted through public tender at an equity exchange in compliance with the requirements stipulated in the Guidelines on Supervision and Management of the Transactions of State-owned Assets of Enterprises* (企業國有資產交易監督管理辦法) approved by State-owned Assets Supervision and Administration Commission of the State Council unless otherwise permitted under law. Accordingly, Mianyang Xinchen could acquire the Properties from Xinhua Combustion Engine only through the public tender. If Mianyang Xinchen's bidding is successful, it will thereupon become unconditionally obliged to purchase the Properties and will not be able to seek the approval of the Independent Shareholders after the bid that is required under Chapter 14A of the Listing Rules. Accordingly, the Directors are seeking the Independent Shareholders' advance approval for the grant of the Proposed Mandate.

Further, the Group was licensed by BMW AG to manufacture prince engines under its own brand for its existing and potential customers. The Group decided to build up production facilities for prince engines in Mianyang after considering, among others, location of existing production facilities of the Group and its management team, location of the Group's existing and potential customers and support from local government of Mianyang. The Properties are located adjacent to the Group's existing production site in Mianyang. The Directors consider that the Possible Acquisition represents an excellent expansion opportunity for the Group as it would allow the

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Company to leverage on the existing manufacturing capability of the Properties so as to fulfill its expansion goal to build up assembly and processing production line(s) for prince engine more efficiently. The Possible Acquisition will also allow the Group to centralize its existing and new production facilities in one location to achieve synergy and improve operational efficiency. The Group may revamp the ancillary structure within the Properties in accordance with its plan to industrialise the manufacturing of prince engines if necessary.

We have further discussed with the management of the Company and were given to understand that (i) it is the intention of the Group to acquire the land use rights of the Properties given that it would allow greater flexibility for Mianyang Xincheng to relocate part of its production facilities to the Properties and to establish new production lines for new engine products; (ii) the Properties are located adjacent to the existing manufacturing base of the Group which are considered to be a convenient location in facilitating the co-operation and communication between the existing and new production facilities, whereas moving in another nearby manufacturing place is unlikely to achieve further advancement in facilitating current business operations of Mianyang Xincheng as compared to the Properties; (iii) it is expected that a relatively long time is required and additional costs will be incurred for finding a suitable place nearby and in moving to a new manufacturing base and relocation of production lines and equipment. Thereafter, additional time is required for calibrating such production lines and equipment into workable conditions which may in turn hinder the business expansion of the Group; and (iv) the fixed asset base of the Group would be enhanced and the Group may enjoy future capital appreciation of the Properties or reduce future investment cost for acquiring land and structures of a comparable scale.

According to the China Association of Automobile Manufacturers, the production and sales of automobiles during the year 2015 witnessed a stable growth and reached approximately 24,503,300 and 24,597,600 units respectively, representing an increase of 3.3% and 4.7% respectively year on year. For the six months ended 30 June 2016, the production and sales of automobiles reached approximately 12,892,200 and 12,829,800 units respectively, representing a further increase of 6.47% and 8.14% as compared to the same period from the preceding year. Further, with reference to the decisions announced during the executive meeting of the State Council dated 29 September 2015, the purchase tax of small engine vehicles was reduced by 50% in a bid to boost the sales incentive on cars in China until the end of year 2016. In addition, it is expected that more stringent emission standards will be imposed in the near future in response to the increasingly environmental protection awareness in the PRC, which will increase the demand for high quality engine, like prince engine,

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to increase the fuel efficiency and reduce emission. As advised by the Company, the current production capacity of the Group is approximately 50,000 units for the production of N20 engines and approximately 365,000 units for the production of traditional engines per year respectively. Taking into account the production capacity of the Group and potential market demand for high quality engine products, we are of the view that there are sufficient room on the upgrade and/or expansion on existing product line(s). Meanwhile, we are of the view that the Group's business strategy in building up production capacities for prince engines and other new production lines for new engine products in Mianyang through the Possible Acquisition was made after due and careful enquiries and is backed up by solid growth in the Group's business and also in the automobile industry in the PRC, accordingly the rationale behind the Possible Acquisition as a step to allow future expansion is commercially justified.

Based on the above, especially the expected flexibility for further expanding and modifying the manufacturing facilities of the Properties to allow the production of prince engines and other new engine products, we consider that there is a strong commercial rationale for the Company to enter into the Possible Acquisition to secure the opportunity for more efficient and cost-effective expansion. We are of the view that the Possible Acquisition is in the ordinary and usual course of business of the Group, and is a crucial and necessary step for future expansion and therefore is in the interests of the Company and the Shareholders as a whole.

2. *Terms of the Possible Acquisition*

Pursuant to the Possible Acquisition, the initial asking price for the bid is approximately RMB264.26 million (equivalent to approximately HK\$306.68 million). The Maximum Consideration for the Tender under the Possible Acquisition which Mianyang Xincheng is willing to bid at the Tender is approximately RMB264.26 million (equivalent to approximately HK\$306.68 million). The Maximum Consideration was agreed by the Board after taking into account: (i) the initial asking price; (ii) the location and potential value of the Properties; and (iii) the appraised value of the Properties of RMB250.14 million (equivalent to approximately HK\$290.29 million) as at 30 June 2016 by an independent property valuer appointed by the Company by using market approach for the land portion and cost approach for the building portion. The land portions of the Properties were originally acquired by Xinhua Combustion Engine in October 2010. The original acquisition costs of the Properties amount to approximately RMB248.94 million (equivalent to approximately HK\$288.90 million).

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As set out in the Letter from the Board, the tender process at Southwest United Equity Exchange is as follows:

- (a) Southwest United Equity Exchange released a notice specifying the terms of the sale of the Properties. The Properties are available for bidding in a 20 working day period since 30 June 2016. If Southwest United Equity Exchange has not received any valid offer by the first due date, second round of tender will commence and the Properties will be available for bidding for another 10 working days. If no valid offer has been received by Southwest United Equity Exchange in the second round, the tender process will then repeat in 10 working day cycles until the Properties are sold.
- (b) After obtaining the Independent Shareholders' approval in respect of the Possible Acquisition at the Extraordinary General Meeting, Mianyang Xincheng will then submit the bidding application to Southwest United Equity Exchange to bid for the Properties. Mianyang Xincheng will be required to pay a deposit of RMB20 million (equivalent to approximately HK\$23.21 million) (the "**Deposit**") to Southwest United Equity Exchange for the Possible Acquisition.
- (c) After the expiry of the tender cycle in which Mianyang Xincheng has submitted the bidding application, Southwest United Equity Exchange will notify Mianyang Xincheng as to whether it has succeeded in the bidding.
- (d) Within 3 working days from the confirmation letter from Southwest United Equity Exchange, Mianyang Xincheng will enter into acquisition agreement with Xinhua Combustion Engine (the "**Acquisition Agreement**").

In order to participate in the Tender, Mianyang Xincheng should satisfy the criteria including: 1) completion of the application for participating in the Tender by producing corporate documents of the Mianyang Xincheng such as business registration certificate, authorised representative certificate and relevant board resolution or shareholders' resolution during the prescribed period; and 2) full payment of the Deposit.

The final bid price for the Properties to be submitted will depend on, among other things, the Group's view on the property market (in particular, properties suitable for vehicle engines manufacturing) and its prospects on the date of the Tender as well as the Group's estimate of the bid prices that could have been made by potential competitors at the Tender (with reference to the background and financial credibility of the potential competitors), but will in any event not exceed the Maximum Consideration of approximately RMB264.26 million (equivalent to approximately HK\$306.68 million).

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Upon confirmation on its successful bid of the tender, Mianyang Xinchun will enter into the Acquisition Agreement with Xinhua Combustion Engine whereby the final consideration to be paid by Mianyang Xinchun to Xinhua Combustion Engine will be stated. The Board therefore resolved to seek a prior authorisation from the Shareholders before the open bidding for entering into the Tender with a bidding price no more than the Maximum Consideration. The consideration under the Possible Acquisition will be settled by cash or cash equivalent in the following manner:

- (a) 30% of the consideration shall be satisfied within 5 working days from the date of the Acquisition Agreement;
- (b) 50% of the consideration shall be satisfied within 30 working days from the date of the Acquisition Agreement; and
- (c) The remaining balance of the consideration shall be satisfied within 1 year from the date of the Acquisition Agreement.

As mentioned in the Letter from the Board, the original acquisition costs of the Properties was approximately RMB248.94 million. Upon comparison, we note that the Maximum Consideration represents a premium of approximately 6.2% over the said original purchase costs of the Properties. Meanwhile, as stated in the Valuation Report as set out in Appendix I to the Circular prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional valuer (the “**Valuer**”), we note that the appraised value of the Properties amounted to RMB250,139,000 as at 30 June 2016 (the “**Valuation**”). Upon comparison, we note that the Maximum Consideration represents a premium of approximately 5.6% over the said appraised value of the Properties.

In assessing the Valuation, we have (i) reviewed the Valuation Report and discussed with the Valuer regarding, in particular, the methodology of, and the basis and assumptions adopted for, the Valuation; (ii) reviewed the terms of engagement of the Valuer having particular regard to whether the scope of work is appropriate and whether there are any limitations on the scope of work which might adversely affect the degree of assurance given by the Valuation Report; and (iii) assessed the independence, experience and the qualification of the Valuer in respect of the Valuation.

We noted that the market value of the Properties was arrived at by adopting market approach for the land portion by applying direct comparison method where comparison is made based on prices realised on actual sales price of land with comparable scale, and cost approach with reference to the depreciated replacement cost where the respective valuation is based on an estimate of the market value for the existing use of the land, plus the current

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cost of replacing the asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimizations. As advised by the Valuer, both approaches for the respective land and building portions are commonly-adopted methods for property valuation with manufacturing structures erected thereon since there is a known market based on comparable sales for the land portion and since the Properties are intended to be held by the Group for its own use. On the other hand, due to 1) the nature of the buildings and structures of the Properties, which the main workshop of the property is distinguished from general industrial buildings by incorporating features such as insulation wall, high standard of lightings and floorings, and other certain enhancement to the building that are built for specific purpose of production; and 2) the particular location in which it is situated (i.e. being in the National High-Tech Industrial Development Zone of Mianyang City), where the aforementioned features are considered specially built and unique in the surrounding area, there are unlikely to be relevant market comparable sales and rents readily available and therefore cost approach was considered more appropriate in valuating the building portion. The Valuer has also considered other valuation methodology such as income approach. However, we understand from the Valuer that the adoption of income approach may not be appropriate due to the nature of the Properties occupied by the Group has been for its own use and no rental was incurred to be the prime reference to be used in income approach. We have obtained 3 comparable sales transactions for land premises in the market which took place during September 2014 to April 2016 from the Valuer and noted that the Valuer has chosen comparable recent sales transactions at Yongxing Town, Gaoxin District, Mianyang City (i.e. the respective town where the Properties are situated). Further, we have obtained reference material relating to the approximate order of construction costs in the PRC from the Valuer and noted that the appraised value of the building portions under cost approach fall within the range of cost per square meter as indicated in the reference material. Based on the above, we concur with the Valuer's view that the market approach and the cost approach applied on the respective land and building portions are more appropriate approaches for the valuation of the market value of the Properties.

Upon our enquiry, we were given to understand that the Valuer had carried out an inspection on the Properties on 6 January 2016 to research information to determine the capital value of the Properties. We also noted that the Valuation is prepared in accordance with Chapter 5 of the Listing Rules, the Royal Institution of Chartered Surveyors Valuation Standards published by the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

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In compliance with the requirements of Rule 13.80 of the Listing Rules, we have reviewed and enquired the qualification and experience of the valuers of the Valuer in charge of the valuation. As per our discussion with the valuers, we noticed that Mr. Gilbert C.H. Chan, the leading person in charge of the valuation, is a Chartered Surveyor who has 23 years' experiences in undertaking valuations of properties in Hong Kong and 22 years of property valuation experience worldwide. As such, we are of the view that the valuers possess sufficient experience in performing the valuation. Based on the aforesaid and our review of the assumptions adopted by the Valuer as set out in the Valuation Report, we consider the adoption of the market approach for the land portion and cost approach for the building portion as primary basis for the Valuation is fair and reasonable.

To assess the fairness and reasonableness of the Maximum Consideration, we have reviewed the Valuation Report as set out in Appendix II to the Circular and assessed the basis and assumptions used by the Valuer in the valuation of the Properties as at 30 June 2016.

We noted that the Maximum Consideration of approximately RMB264.26 million exceeds the above the appraised value of RMB250,139,000 for the Property with reference to the Valuation Report by approximately RMB14.12 million (equivalent to approximately HK\$16.39 million). With reference to the open tender invitation set out by Southwest United Equity Exchange on its website, we note that the Maximum Consideration is equivalent to the minimum bidding price. Given the nature of the Properties are land and building structures, we consider that the determination of the consideration by making reference to its minimum bidding price and the Valuation is reasonable and in line with market practice. As discussed with the Company, we further understand that the markup difference in the Maximum Consideration is the maximum extend which the Group is willing to provide at the Tender considering the saving of a number of costs including but not limited to the costs of reconstructing production structures of similar quality in a new manufacturing base such as design costs, transportation costs of raw materials and semi-finished products and the time costs incurred in restoring existing plants and equipment into workable conditions for the relevant construction.

In view that (i) the Maximum Consideration of approximately RMB264.26 million represents a reasonable markup of approximately 5.6% on valuation which has taken into account (a) the potential saving on costs of locating and settling in a new production base and (b) such level is the minimum bidding price of the Tender; and (ii) we have not identified any material matter which would lead us to cast doubt on the fairness and reasonableness of the Valuation and consider that the Valuation is normal in nature without any unusual assumption and with fair and reasonable basis, we are of the view that the terms of the Possible Acquisition is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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3. *Financial effects of the Possible Acquisition*

(i) *Earnings*

Given that Mianyang Xincheng intends to occupy the Properties as a step for further expansion of production capacity and centralization of its existing and new production facilities in one location to achieve synergy and improve operational efficiency, it is expected that the Group may in turn improve its earnings.

(ii) *Cashflow*

Based on the 2015 Annual Report, the Group had cash and bank balances of approximately RMB288.2 million as at 31 December 2015. As advised by the Company, the Company intends to settle the Consideration by way of cash or cash equivalent. Thus, it is expected that there will be a cash outflow of the Group arising from the Possible Acquisition but we consider this will not affect the working capital sufficiency of the Group as the Group has been profit-making consecutively since 2009 and recorded a net current assets in the amount of RMB1,307.4 million as at 31 December 2015.

(iii) *Net asset value*

According to the 2015 Annual Report, as at 31 December 2015, the consolidated net assets attributable to equity holders of the Company and the net asset value per Share were approximately RMB2,679.4 million and approximately RMB2.09 respectively. Upon successful bid of the Tender, the Properties will become assets of the Group and the Company will settle the consideration by cash or cash equivalent. We consider that the Possible Acquisition is expected to have a neutral effect on the Group's net assets position and on net asset value per Share.

(iv) *Gearing*

According to the 2015 Annual Report, the gearing ratio of the Group as at 31 December 2015 was approximately 41%, as derived by dividing the total interest-bearing liabilities of the Group as at 31 December 2015 of approximately RMB1,088.3 million by the total equity of approximately RMB2,679.4 million as at 31 December 2015. Given the Group intends to settle the Consideration through cash or cash equivalent, the gearing ratio of the Group may not be affected.

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

RECOMMENDATION

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

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Managing Director

Louis Chan

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

* *for identification purposes only*

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	33,993,385 ordinary	2.65%
Mr. Wang Yunxian ⁽²⁾	Beneficial owner	6,471,143 ordinary	0.50%
	Trustee and interest in a controlled corporation	33,993,385 ordinary	2.65%

Notes:

- (1) Mr. Wu Xiao An is a trustee of the discretionary trust (which holds 33,993,385 Shares for the beneficiaries) under the share incentive scheme established by Lead In Management Limited (“**Lead In**”) in 2011 (the “**Incentive Scheme**”) and holds 50% interests in Lead In. Accordingly, Mr. Wu is deemed or taken to be interested in approximately 2.65% of the issued share capital of the Company.
- (2) Mr. Wang Yunxian is a trustee of the discretionary trust (which holds 33,993,385 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 2.65% of the issued share capital of the Company.
- (3) These percentages are calculated on the basis of 1,282,211,794 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	31.20%
Brilliance China Automotive Holdings Limited ⁽⁷⁾	Interest in a controlled Corporation	400,000,000	31.20%

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding ⁽⁶⁾
Huachen Automotive Group Holdings Company Limited ⁽²⁾	Interest in a controlled Corporation	400,000,000	31.20%
Xinhua Investment Holdings Limited	Beneficial owner	400,000,000	31.20%
Xinhua Combustion Engine ⁽³⁾	Interest in a controlled Corporation	400,000,000	31.20%
Pushi Group ⁽⁴⁾	Interest in a controlled Corporation	400,000,000	31.20%
Wuliangye ⁽⁵⁾	Interest in a controlled Corporation	400,000,000	31.20%
Templeton Asset Management Ltd.	Investment Manager	89,829,000	7.01%

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 31.20% of the issued share capital of the Company in which Brilliance Investment is interested.
- (2) Brilliance China is owned as to approximately 42.38% by Huachen Automotive Group Holdings Company Limited (“**Huachen**”) and Huachen is deemed or taken to be interested in approximately 31.20% 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 Xinhua Combustion Engine and Xinhua Combustion Engine is deemed or taken to be interested in approximately 31.20% 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 Pushi Group and Pushi Group is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (5) Pushi Group is a direct wholly-owned subsidiary of Wuliangye and Wuliangye is deemed or taken to be interested in approximately 31.20% of the issued share capital of the Company in which Xinhua Investment is interested.
- (6) These percentages are calculated on the basis of 1,282,211,794 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, 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 2015, 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
Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle")	Property valuer

Each of the Independent Financial Adviser and Jones Lang LaSalle 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, each of the Independent Financial Adviser and Jones Lang LaSalle was not beneficially interested in the share capital of any member of the Group nor did it have 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 2015, 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 of recommendation from the Independent Board Committee, the text of which is set out on page 12 of this circular;
- (b) the letter from the Independent Financial Adviser, the text of which is set out on pages 13 to 25 of this circular;
- (c) the valuation report from Jones Lang LaSalle on the Properties, the text of which is set out on pages 33 to 37 of this circular; and
- (d) the written consent from each of the Independent Financial Adviser and Jones Lang LaSalle referred to in section 6 of this appendix.

11. MISCELLANEOUS

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

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer and consultant, in connection with its valuation as at 30 June 2016 of the property interest to be acquired by Xincheng China Power Holdings Limited.



Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

27 July 2016

The Board of Directors
Xincheng China Power Holdings Limited
Suites 1602-05, Chater House,
8 Connaught Road Central,
Hong Kong

Dear Sirs,

Xincheng China Power Holdings Limited (the “**Company**”) intends to acquire the property interest of certain properties owned by 綿陽新華內燃機股份有限公司 (“**Xinhua Combustion Engine**”). Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“**Jones Lang LaSalle**” or “**we**”) is instructed by the Company to provide valuation service on the property in which Xinhua Combustion Engine has interest for disclosure purpose.

The property comprises 3 parcels of land, 6 buildings and various ancillary structures erected thereon, which located at No.69, Xingchang Avenue, Gaoxin District, Mianyang City, Sichuan Province, the People's Republic of China (the “**PRC**”). We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market value of the property interest as at 30 June 2016 (the “**valuation date**”).

Our valuation is carried out on a market value basis. Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Due to the nature of the buildings and structures of the property and the particular location in which it is situated, there are unlikely to be relevant market comparable sales and rents readily available, the property interest has been valued by the Cost Approach with reference to its depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deduction for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Company, and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers – Tian Yuan Law Firm, concerning the validity of the property interest in the PRC.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out on 6 January 2016 by Miss Jun Yang and 22 July 2016 by Miss Cyndi Huang. Miss Cyndi Huang is a qualified China Real Estate Appraiser and has 4 years' experience in property valuation in the PRC, and Miss Jun Yang has 1 year's experience in property valuation in the PRC.

All monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is attached.

Yours faithfully,
for and on behalf of

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Gilbert C.H. Chan

MRICS MHKIS RPS (GP)

Director

Note:

Gilbert C.H. Chan is a Chartered Surveyor who has 23 years' experience in the valuation of properties in Hong Kong and 22 years of property valuation experience worldwide. He has been working with Jones Lang LaSalle Corporate Appraisal and Advisory Limited since 2008.

VALUATION CERTIFICATE

Property interest to be acquired by the Company for owned occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2016 RMB
1.	3 parcels of land with 6 buildings and various ancillary structures located at No.69, Xingchang Avenue, Gaoxin District, Mianyang City, Sichuan Province, The PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 103,922.87 sq.m., 6 buildings and various ancillary structures erected thereon which were completed in various stages between 2011 and 2014.</p> <p>The buildings mainly include industrial workshops, administration building, dormitory buildings, canteen and ancillary buildings with a total gross floor area of approximately 71,693.64 sq.m.</p> <p>The structures mainly include landscape, roads, walls and improvement to the buildings.</p> <p>The land use rights of the property have been granted for a term expiring on 14 April 2060 for industrial use.</p>	Certain portion of the property is currently occupied by the Company under the permission of owner for production purpose.	250,139,000

Notes:

- Pursuant to 3 State-owned Land Use Rights Certificates – Mian Cheng Guo Yong (2010) Di Nos. 18694, 18695 and 18696, the land use rights of 3 parcels of land with a total site area of approximately 103,922.87 sq.m. have been granted to Xinhua Combustion Engine for a term expiring on 14 April 2060 for industrial use.
- Pursuant to 6 Building Ownership Certificates – Gao Xin Fang Quan Zheng Jian Zheng Zi Di Nos. 1006960, 1006961, 1006962, 1006963, 1006964 and 1006969, 6 buildings with a total gross floor area of approximately 71,693.64 sq.m. are owned by Xinhua Combustion Engine.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers – Tian Yuan Law Firm, which contains, inter alia, the following:

- a. Xinhua Combustion Engine has obtained the Land Use Rights Certificates of the property and is entitled to legally use, transfer, lease, mortgage or otherwise dispose of the Land Use Rights of the property; and
- b. Xinhua Combustion Engine has obtained the Building Certificates of the property and is entitled to legally use, transfer, lease, mortgage or otherwise dispose of the ownership rights of the property.

4. A general description of the property is summarized as below:

- (a) General description of location of the property : The captioned property held by the Xinhua Combustion Engine is situated in the National High-Tech Industrial Development Zone of Mianyang City, Sichuan Province, the PRC. The captioned property is located at Xingchang Avenue, close to Xing'an Avenue and has easy accessibility to the Beijing-Kunming Highway (G5). There are many other factories located nearby the subject site.
- (b) Details specification of the property : The main workshop of the property is distinguished from general industrial buildings by incorporating features such as insulation wall, high standard of lightings and floorings. In addition, there are certain enhancement to the building which are special built for high standard production.
- (c) Details of encumbrances, liens, pledges, mortgages against the property : Nil
- (d) Environmental Issue : Nil
- (e) Details of investigations, notices, pending litigation, breaches of law or title defects : Nil
- (f) Future plans for construction, renovation, improvement or development of the property : As advised by the Company, there is no details plan for further development of the property.

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 Gloucester Room, 2/F., Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong on Thursday, 25 August 2016 at 9:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

- (a) Mianyang Xincheng Engine Co., Ltd.* (綿陽新晨動力機械有限公司) (“**Mianyang Xincheng**”) is hereby authorised to participate and bid at the Tender (as defined in the circular of the Company dated 27 July 2016 (the “**Circular**”), of which the notice convening this meeting forms part and a copy of which has been produced to this meeting marked “A” and initialled by the chairman of this meeting for the purpose of identification) for the acquisition of the Properties (as defined in the Circular);
- (b) the Possible Acquisition (as defined in the Circular), if the bid by Mianyang Xincheng is successful, at a total consideration of up to approximately RMB264.26 million, being the maximum price which Mianyang Xincheng is willing to bid at the Tender for the Possible Acquisition and the transactions contemplated thereunder be and are hereby approved; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) the directors of the Mianyang Xincheng be and are hereby authorised to proceed with the Tender and, if the bid of Mianyang Xincheng is successful, completion of the Possible Acquisition and to exercise all the powers of Mianyang Xincheng and to do all things and acts and execute and deliver all documents, as may be necessary, desirable or expedient to carry out or to give effect to any or all transactions in connection with the Tender and, if the bid is successful, the Possible Acquisition including, where necessary, affix the seal and company chop of Mianyang Xincheng on such documents.”

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

Hong Kong, 27 July 2016

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 resolution 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*